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Industrial Development Board

Sixteenth session
Vienna, 20-22 November 1996
Item 5 (a) of the provisional agenda

Programme and Budget Committee

Twelfth session
Vienna, 18-20 November 1996
Item 4 of the provisional agenda

IMPLEMENTATION OF THE PROGRAMME AND BUDGETS, 1996-1997

Note by the Director-General

1. Paragraph (k) of decision GC.6/Dec.11 concerning the programme and budgets, 1996-1997, requested the Director-General to report on elements of that decision on a regular basis to the policy-making organs. Updated information on those elements is brought to the attention of the policy-making organs as outlined in the following paragraphs.

In-depth examination of the revised programme and budgets, 1996-1997 (para. (g))*

2. Document IDB.15/5-PBC/AS.3/5 contained a report on the implementation of the programme and budgets, 1 January to 31 March 1996. Updated information on financial implementation of the programme and budgets as of 31 August 1996 is provided in the report on the financial situation of UNIDO (IDB.16/7-PBC.12/7).

3. Following its consideration of document IDB.15/5-PBC/AS.3/5, the Board in its decision IDB.15/Dec.3 requested the Director-General to organize informal intersessional consultations with delegations, under the guidance of the Chairman of the Programme and Budget Committee, with a view to conducting an in-depth examination of the programmatic contents of the revised programme and budgets for the biennium 1996-1997. A report on those meetings is contained in a document submitted by the Chairman of the Committee (IDB.16/22-PBC.12/12).

Ceiling of assessments (para. (h))

4. Following consideration by the Programme and Budget Committee of the report prepared by the Secretariat containing background information on the ceiling of assessments (IDB.15/2-PBC/AS.3/2), the Board in decision IDB.15/Dec.5 requested the Director-General to monitor closely developments in the United Nations dealing with the scale of assessments and to update the background information on the ceiling of assessments with respect to new developments in the United Nations. The scale of assessments is expected to be discussed by the General Assembly at the end of December 1996.

Composition of the Secretariat (para. (i))

5. Information on the composition of the Secretariat is contained in document IDB.16/17 on personnel matters.

*Paragraph references refer to paragraphs in decision GC.6/Dec.11.

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IMPLEMENTATION OF THE PROGRAMME AND BUDGETS, 1996-1997

Informal intersessional consultations on an in-depth examination of the programmatic contents of the revised programme and budgets for the biennium 1996-1997

Report by the Chairman of the Programme and Budget Committee,
H.E. Mr. A. Celso de Ouro-Preto (Brazil)

Introduction

1. The Industrial Development Board at its fifteenth session requested the Director-General to organize informal intersessional consultations with delegations, under the guidance of the Chairman of the Programme and Budget Committee, with a view to conducting an in-depth examination of the programmatic contents of the revised programme and budgets for the biennium 1996-1997 (IDB.15/Dec.3, para. (b)). Accordingly, as discussed in a meeting of the combined Bureaux of the Board and the Committee on 7 June 1996, meetings of the informal consultations were held under the chairmanship of the Chairman of the Programme and Budget Committee, H.E. Mr. A. Celso de Ouro-Preto (Brazil) on 17 and 21 June, and on 25 September. On 3 September 1996, the informal intersessional consultations met under the chairmanship of Mr. M. W. Abouzeid (Egypt), Vice-Chairman of the Programme and Budget Committee, and on 14 October the meeting was chaired by H.E. Mrs. D. Rozgonova (Slovakia), Vice-Chairman of the Programme and Budget Committee.

2. The in-depth examinations included presentations of the activities under UNIDO Major Programmes, which were made on 21 June (Africa, as part of Country Programmes and Funds Mobilization, and Investment and Technology Promotion), 3 September (Human Resource, Enterprise and Private Sector Development) and 25 September (Industrial Sectors and Environment, and Research and Publications).

3. At the first meeting, held on 17 June 1996, a representative of the Secretariat, in his introductory remarks, noted that the programme and budgets of UNIDO for 1996-1997, contained in document IDB/S.6/2, should be reviewed having regard to the

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interlinking documents on the reform, namely documents GC.6/CRP.3 and GC.6/30 and Add.1. He also noted that, as for the UNIDO Secretariat, the meeting had a dual purpose: (a) to assist Member States with the review of the programmatic contents of the approved programme and budgets, 1996-1997, and related budgetary aspects by providing information, as required, and (b) to take account of the comments of Member States made during the review as guidance to assist in the revision of the format of future programme and budgets.

4. A representative of the Secretariat then recalled the uncertain outlook that the Organization faced during 1995 in respect of its future membership and the consequent impact on the programme and budgets for the 1996-1997 biennium. He then provided an overview and recapitulation of the process of budget approval, which included the submission to and approval by the Programme and Budget Committee of the original programme and budgets, the subsequent preparation of expenditure plans, culminating in the preparation and approval by the General Conference of the revised programme and budgets and contingency plans.

Organizational matters

5. In view of the informal nature of the meeting and the tradition of previous similar meetings, as well as the need to effect savings, it was agreed to conduct the informal consultations in English only, although it was pointed out that normally a meeting dealing with such important matters should be conducted in all official languages.

6. The representative of Japan introduced a list of items to be covered during the informal consultations, which was adopted as the agenda, as follows:

I. Generalities:

1. Methodology of budget presentation:

(a) Difficulties in quantitative illustration of thematic priorities;

(b) Necessity of clarification of presentation objectives.

2. Format revision:

(a) Presentation of changes enabling comparison over bienniums, including re-cost;

(b) Reference to the legislative background.

3. Policy change.

4. Conformity of narratives to resources.

5. Relevance of decentralization (e.g. career development training, printing).

6. Need for revised or supplementary estimates.

II. Particulars:

1. Case study—Impact of staff reduction:

(a) Africa Bureau;

(b) Investment and Technology Division.

7. The discussions during the informal consultations were grouped under two major headings: (a) methodology, format and general review of content and (b) review of specific Major Programmes and Programmes.

I. METHODOLOGY, FORMAT AND GENERAL REVIEW OF CONTENTS

8. Representatives of Member States queried whether UNIDO had ever prepared, or considered preparing a programme budget as compared to the present methodology of programme and budgets. It was also questioned whether the newly adopted seven thematic priorities of the Organization could be presented in terms of individual allocation of resources to each of them. The Secretariat explained the historical development of the present format of the programme and budgets, which had always been prepared on the basis of the structure of the Organization, while also showing the cross-organizational linkages for specific programmes. The present format had been approved by the Industrial Development Board in 1990. It was also pointed out that there existed no common approach to the presentation of budgets within the United Nations system. However, representatives were assured that, in future programme and budgets, the Secretariat intended to show the work programmes, activities, outputs and resource allocations by individual thematic priorities and, as previously, by Major Programme, Programme and Subprogramme, which largely equate to the organizational structure.

9. A representative of a Member State noted that insufficient information was provided in the present format on previous bienniums with regard to allocations for staff, and thus it was difficult to see if growth had taken place. It was further suggested that resource changes should be shown at the same rates to enable comparisons. As regards the texts, he noted that if changes were made between bienniums, they should be clearly explained in the narrative.

10. In response to a question as to why post changes at all programme levels were not visible in the programme and budget document, it was explained that the concept of including this information had been dispensed with by the Industrial Development Board, when approving the present format in 1990. For the 1996-1997 biennium, specific information on that subject had been made available in document GC.6/CRP.3. As regards changes in the resource allocation information between bienniums, this information is presented in annexes to the budgets. However, it was agreed that an improved presentation of these items could be made in future budgets.

11. In response to a question regarding the conformity of narratives to resources, the Secretariat assured that necessary attention was paid to avoid duplication and to present clearly-envisaged activities and outputs. With regard to the decentralization of training, EDP and printing funds, it was explained that the reason was to show expenditures where they occurred. Nevertheless, policy decisions were made centrally and Managing Directors were held fully accountable for their use of resources. Career development training activities were undertaken jointly with Personnel Services.

12. The discussions then moved to the lack of appropriate mechanisms for budgetary revisions within a biennium. Some representatives expressed the view that such changes were often the result of postponements of programme implementation due to late payment of assessed contributions. Consideration could therefore be given to delegating the authority to the Industrial Development Board for selected budgetary changes. Similar flexibility was available in other United Nations organizations. Proposed amendments to the financial regulations, to be submitted to the forthcoming session of the Industrial Development Board, will address these issues.

II. REVIEW OF SPECIFIC MAJOR PROGRAMMES AND PROGRAMMES

13. According to the agenda, specific case studies (i.e. Africa and the Investment and Technology Promotion) were reviewed, particularly with regard to the impact of staff reductions on the planned activities and outputs. Subsequently, representatives agreed to review—time permitting—the activities of other Major Programmes of the Organization.

14. On each of the selected Major Programmes or Programmes (see para. 2 above), the Secretariat provided detailed information on staff and other resource reductions and outlined in detail the priorities, activities and outputs envisaged during the biennium, as also contained in the document of the approved programme and budgets, 1996-1997. The information provided in the paragraphs below provides a summary of the explanations given in reply to specific questions.

15. The discussion on the activities of the Africa Bureau also included the programme for the Second Industrial Development Decade for Africa (IDDA) and the planned Alliance for Africa's Industrialization (AAI). In this context, several representatives raised questions on AAI and emphasized that the resource reductions required in UNIDO's budgets must under no circumstances affect the budgets for IDDA activities. The Secretariat confirmed that, notwithstanding the overall reductions of 21 per cent in UNIDO resources, the resources for both the IDDA supplementary activities and the IDDA component of the Regular Programme of Technical Cooperation had remained at the same level as in the programme and budgets, 1994-1995. Resources allocated to the Africa Bureau (programme 330) had also increased by 3.6 per cent. The Special Adviser for AAI had been placed against a vacant D-1 post in General Management.

16. Representatives of the Secretariat stressed again the fact that not only the Africa Bureau, but all substantive programmes of UNIDO supported programmes and projects in Africa. Furthermore, thematic priority 7 specifically addressed agro-based industries in Africa, and three out of the recently launched five high-impact programmes were devoted to Africa. It was also reiterated that assistance for LDCs—of which the majority is located on the African continent—was another important priority of UNIDO activities. With regard to IDDA, the Africa Bureau closely cooperated with the Arab Bureau in all matters of programming and coordination. The status of preparation of AAI—both at Headquarters and in African countries—was explained and representatives repeated their concerns over the funding sources for AAI activities. It was agreed that Permanent Missions would be kept informed of the progress of AAI.

17. In reviewing the Investment and Technology Promotion Major Programme, representatives of Member States expressed concern about the higher-than-average resource reductions of 25.8 per cent. It was explained that this was due mainly to the discontinuation of the system of consultations programme. Detailed explanations were also provided on the ongoing internal reorganization of the Division with the aim to increase quality through improved teamwork, coordination and the integration of investment, technology and information activities. The need to further intensify investment promotion activities and their follow-up was repeatedly emphasized. As regards Economic Cooperation among Developing Countries, it was

explained that the coordination unit was now under the direct supervision of the Managing Director, with the aim to achieve more practical programmes, particularly in the area of technology transfer.

18. The presentation of the Human Resource, Enterprise and Private Sector Development Major Programme provided details on each component, with particular emphasis on the conceptual work in elaborating normative activities under UNIDO's global forum role, as well as on the specific activities in the areas of training, small and medium industries, enterprise and private sector development. Representatives expressed their support of the planned activities under the various programmes. Upon request of one representative, examples of project-level work in the various programmes were provided. One representative requested more information on activities in human resources development, in particular group training programmes. It was explained that, in response to General Conference resolution GC.6/Res.4, UNIDO was giving more emphasis to national capacity-building and institution-building, and that group training programmes—while being continued—were more closely linked to the new thematic priorities.

19. In the presentation on the Industrial Sectors and Environment Major Programme, the evolution of these programmes over the recent years was reviewed. It was stressed that the funding pattern had changed radically, with UNDP funds declining sharply, while—since 1992—the Multilateral Fund for the Implementation of the Montreal Protocol had assumed great importance for UNIDO. It was further demonstrated how the various Programmes had been geared to serve the thematic priorities of UNIDO. An outlook was also provided on the key managerial challenges faced by the Division, such as a smooth transition away from the present high reliance on the Montreal Protocol, which could not be considered a permanent source of funding. Representatives asked questions concerning the involvement of Governments in the programme reorientation of the Division, the high vacancy rate prevailing in the Division and the extent of in-house cooperation on technology issues. The Secretariat emphasized the need for Member States to support the role and functions of UNIDO not only in the Organization's policy-making organs but also in other international forums and funding mechanisms where industrial development played an important role. The present vacancy rate as well as the limited non-staff resources available to the Division was seen as a constraining factor in programme implementation. This situation was being addressed, however, by selective recruitment of highly specialized staff for five Professional-level posts. Interdivisional cooperation on technology issues was evident in many fields, a significant one of which was the build-operate-transfer (BOT) schemes.

20. In the presentation on the Research and Publications Major Programme of UNIDO, information on the objectives and focus of the various components was provided. The Industrial Statistics Programme was reported to be concentrating on developing efficient databases in its clearing-house function for global industrial statistics, on related research and analysis, and increasingly on capacity-building technical cooperation. Work in the Studies and Research Programme was focusing on improving the annual *Global Report* as UNIDO's "flagship publication" as well as on industrial policy and industrial sector studies as support to the thematic priorities of UNIDO. The Public Information Programme, in its efforts to project a consistent public corporate image of UNIDO, was emphasizing improved media relations and better external and internal communication, the first results of which were already visible. Representatives questioned the placement of public information functions in the present organizational structure. It was explained that public information drew heavily on the data and research emanating from this Division and was exercising an important advisory function on the overall UNIDO publications approach. In this capacity, Public Information was benefiting from links to the other programmes as well as from interaction with the Publications Board, the Secretariat of which was also located in the same Division. In addition, the link between Public Information and the Office of the Director-General was explicated. Further questions were related to the functions and publicity of the *Global Report*. One representative suggested to establish the position of "chief economist" within UNIDO to present authoritative views on economic development issues. In response to a question on the discontinuation of the *Industrial Development Review* series, the Secretariat referred to resource constraints and the need to orient the limited research resources towards supporting the thematic priorities of UNIDO.

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MEDIUM-TERM PROGRAMME FRAMEWORK, 1998-2001 (including general ceiling for the biennium 1998-1999)

Draft medium-term programme framework, 1998-2001

Proposals of the Director-General

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Abbreviations

ACC	Administrative Committee on Coordination
AIDMO	Arab Industrial Development and Mining Organization
APCTT	Asian and Pacific Centre for Transfer of Technology
BOT	build-operate-transfer
CFC	Common Fund for Commodities
CFC	chlorofluorocarbon
CMEA	Council for Mutual Economic Assistance
COMFAR	UNIDO Computer Model for Feasibility Analysis and Reporting
ECDC/TCDC	economic and technical cooperation among developing countries
ESCWA	Economic and Social Commission for Western Asia
ESID	environmentally sustainable industrial development
EU	European Union
FADINAP	Fertilizer Advisory, Development and Information Network for Asia and the Pacific
FAO	Food and Agricultural Organization of the United Nations
GEF	Global Environment Facility
GLOBE-IN	Global Learning Opportunities in Business Education cum Industry Network
GRIP	Graduate Resources Integration Programme
Habitat	United Nations Centre for Human Settlements
HRD	human resources development
HRD-ROM	Human Resources Diagnosis and Reorientation Map

Abbreviations *(continued)*

IDDA	Industrial Development Decade for Africa
IDF	Industrial Development Fund
ILO	International Labour Organisation
IPS	Investment Promotion Service
ISIC	International Standard Industrial Classification
ISO	International Organization for Standardization
LDC	least developed country
LEAP	Learn and Earn Programme
LCA	life-cycle assessment
MERCOSUR	Common Market of the Southern Cone
MIGA	Multilateral Investment Guarantee Agency
MOVER	Maximizing Options Thinking for Visionary Enterprise Reformers
NCPC	national cleaner production centres
NGO	non-governmental organization
NIS	Newly Independent States of the former Soviet Union
NSDS	national sustainable development strategies
OECD	Organisation for Economic Cooperation and Development
OECD/DAC	OECD/Development Assistance Committee
OOPP	objectives-oriented project planning
PC	personal computer
PHARE	Assistance for Economic Restructuring in the Countries of Central and Eastern Europe
PPRC	Programme and Project Review Committee
PVC	polyvinylchloride
QSAR	Quality System Assessment Recognition
R and D	research and development
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SELA	Latin American Economic System
SME	small and medium industrial enterprise
SPX	subcontracting and partnership exchange
TACIS	Technical Assistance for the Commonwealth of Independent States and Georgia
UCD	UNIDO Country Director
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UN-NADAF	United Nations New Agenda for the Development of Africa
WHO	World Health Organization

I. THE REFORMED UNIDO WITHIN THE UNITED NATIONS SYSTEM

1. UNIDO has undertaken a major process of programmatic and managerial reform as well as organizational restructuring.[1] The Organization has responded to changed industrial realities and support requirements both by a substantive reformulation of its priorities and focus and by internal reforms in management and organizational structure with a view to increasing effectiveness, efficiency and impact. UNIDO reform has followed a logical sequence: from the redefinition of key objectives and programmes to the redesign of mechanisms to deliver quality services, and finally to savings in staff and non-staff resources.

2. A central feature of UNIDO's reform process has been the prioritization of services based on analyses of current and future priority areas of demand from developing countries and countries with economies in transition. Accordingly, the UNIDO work programme is now focused on the following priorities:

(a) **Geographical:** countries at the early stage of industrial development, in particular least developed countries (LDCs) and those in Africa;

(b) **Sectoral:** high priority has been given to 32 out of 77 industrial subsectors,[2] with emphasis on subsectors related to agriculture and basic industrial needs;

(c) **Thematic:** seven thematic priorities (the seven thematic priorities are described in detail in chapter VI of the present document).

3. UNIDO intends to create a situation in which a major part of its services are provided in the form of large integrated programmes in support of the seven new thematic priorities. Standalone activities not related to larger integrated programmes (e.g. certain training programmes, studies and expert group meetings) have largely been discontinued, and activities in a number of industrial subsectors have been de-emphasized. Greater emphasis has likewise been placed on working with the private sector.

4. UNIDO has undertaken a complete review of approaches to developing the Organization's services. Making use of the tools and expertise of the whole Organization and the best known practices of other institutions, UNIDO has selected an approach which consists of proactive programming based on the seven thematic priorities, leading to programmes at the country level that are more focused. While fewer in number, these programmes are expected to be larger, of higher quality, and of higher impact as well as yielding a significant decrease in the unit costs of design and implementation. This approach will allow the Organization to concentrate resources and experience in priority areas, in spite of resource constraints. *Ad hoc* requests for UNIDO services are today carefully screened to make sure that they fall within the Organization's core mandate and priorities, that the necessary staff expertise is available, and that there are good funding prospects.

5. A complete re-engineering of project implementation, concentrating technical responsibility and administrative implementation in the technical units, simplifying processes, delegating authority to the field where appropriate, and improving computer systems support is also expected to result in lower costs as well as more responsive, faster and better delivery. The objective is to reduce administrative support costs within the medium-term programme period from approximately 30 per cent of project volume—a figure comparable to that of other organizations—to 10-15 per cent. UNIDO has also actively developed innovative sources of funds for financing its services, becoming involved to an increasing extent in the implementation of projects under the Montreal Protocol, the Global Environment Facility, and the Common Fund for Commodities, as well as work financed, for example, by the World Bank and the United Nations Environment Programme.

6. The reform process has also made important internal improvements in efficiency. Staff and non-staff administrative costs have been cut resulting in increased efficiency and delivery. The ratio of General Service to Professional staff has decreased from 4:1 in 1992-1993 to 2:1 in 1996. The total number of UNIDO staff has fallen from 1,174 in January 1994 to 812 in June 1996. Administrative processes have been greatly streamlined. New management principles and procedures have been introduced to accelerate decision-making and increase empowerment, accountability, transparency and effectiveness. Changes of a much broader cultural type have likewise been introduced in the areas of staff performance evaluation, staff development and training.

7. In accordance with the reform of the Organization and the focusing of its priorities and programmes of work, the medium-term programme framework (formerly the medium-term plan), as the principal policy framework of UNIDO, has been modified in its content so as to reflect the new programme priorities. The medium-term programme framework, 1998-2001, also reflects the role of UNIDO within the entire system of international development cooperation in which the roles of bilateral and multilateral agencies as well as those of technical cooperation and financial institutions are being redefined.

8. The overall reform efforts of the United Nations system, and the ongoing debate on the role, scope and impact of development cooperation, have far-reaching

implications for UNIDO. In response to these developments UNIDO has adopted, and will continue to pursue, a two-pronged approach.

9. First, UNIDO must ensure that through its industrial development programmes it directly contributes to overall socio-economic development and thus to the attainment of global, system-wide goals. One such goal is environmentally sustainable development as conceived by the United Nations Conference on Environment and Development under Agenda 21. As described in chapter III of the present document, UNIDO has developed and will continue to implement an important programme of work addressing the major challenges for industrialization and industrial policy arising from Agenda 21. Other global goals addressed by the entire United Nations system relate to social objectives such as poverty alleviation, population and development, and the role of women. With regard to these and other issues, UNIDO participated in global United Nations conferences during the period 1994 to 1996 and has planned—in accordance with the mandates emanating from those conferences—a range of follow-up activities for the medium-term programme period. In all these areas, the instrumental role of the productive sectors in general, and of industry in particular, in achieving overall socio-economic objectives will be emphasized.

10. Secondly, UNIDO will sharpen its own profile as the central coordinating agency within the United Nations system in the field of industry, for supporting the endeavours of developing countries to achieve sustainable development. In response to priority needs of industry, the Organization will focus on elaborating comprehensive programmes in support of industrial development, and on enhancing international industrial cooperation. On this basis, the Organization will act as an effective player in United Nations country teams and ensure that industry and its priority subsectors are an integral element of overall United Nations country support programmes.

11. Specifically, UNIDO will endeavour: (a) to ensure consistency of approaches throughout the United Nations system in support of industrial development in developing countries; (b) to ensure coordination of relevant efforts by various agencies in the system; and (c) to promote coordination and pooling of resources from various donors and agencies for co-financing industrial programmes and projects in developing countries. To that end, UNIDO will strengthen its linkages with all United Nations programmes, departments and agencies relevant to industrial development in order to develop joint programmes and intersectoral approaches.

12. In view of the growing importance of regional and subregional cooperation, UNIDO will seek to enhance its cooperation with the United Nations regional commissions. Since the needs and requirements of various regions differ from each other, tailor-made approaches will be developed to establish the most effective strategy and programmes for cooperation with different regional commissions.

13. In the various regions, UNIDO will also seek to play a role in generating development following emergency or disaster situations. Within the so-called "relief-to-development-continuum" UNIDO will seek its early involvement in emergency and post-emergency situations in order to induce an early transition from relief measures to reconstruction, rehabilitation and genuine development efforts.

14. UNIDO will contribute to implementing the sustainable human development approach of the United Nations Development Programme (UNDP), for which industrial development must constitute a vital cornerstone and an essential programme focus. In this context, the Organization will insist that a clear division of labour between UNDP as a central coordinating agency and UNIDO (as well as other specialized agencies) as a substantive implementing agency be maintained.

II. NEW FORMAT OF THE MEDIUM-TERM PROGRAMME FRAMEWORK

15. It is recalled that the General Conference, at its sixth session, decided in future to rename the "medium-term plan" the "medium-term programme framework" and to reduce its coverage from six to four years (GC.6/Dec.10). In the same decision, and with reference to Board decision IDB.14/Dec.27, a presentation of a revised version of the medium-term programme framework was requested "in the event that the cash resources availability for the biennium 1996-1997 changed significantly resulting in a curtailment of the assumptions contained in document IDB.14/29". Since the preparation in September 1994 of the revised draft medium-term plan 1996-2001 (IDB.13/19) UNIDO's resource base has been reduced as a consequence of the departure from the Organization of the United States of America, which will take effect at the end of 1996. However, it must be noted that the far-reaching process of reform summarized in chapter I above has allowed UNIDO to respond to the unfortunate withdrawal of the United States in such a way that, despite an overall 25 per cent budgetary shortfall, there has been no reduction in the delivery of key services.

16. At the same time, a redefinition and focusing of priorities and programmes has taken place as a key dimension of the reform process. New thematic priorities

have been derived from the five development objectives established at Yaoundé. These thematic priorities will in future serve as the conceptual framework for the delivery of focused UNIDO services. They were endorsed by the General Conference at its sixth session in resolution GC.6/Res.1 and guide the work of UNIDO in the 1996-1997 biennium.

17. The present revised medium-term programme framework thus assumes that:

(a) The basic substantive delivery capacity of UNIDO will be maintained in the programme period despite an overall reduction of the resource base;

(b) The delivery of UNIDO services will take place under the new thematic priorities, which therefore provide the basic structure for the medium-term programme framework, replacing the previous more general five development objectives;

(c) The seven thematic priorities, as defined in document GC.6/30 (paras. 76-82), will remain in place in the 1998-2001 period. However, this will be subject to reassessment in 1998 when, following the rolling programming approach, the medium-term programme framework will be reviewed and updated.

III. THE RESPONSE OF UNIDO TO INDUSTRIAL DEVELOPMENT CHALLENGES IN THE PROGRAMME PERIOD

A. UNIDO's dual role

18. The strategic reform of the Organization, endorsed by Member States at the sixth session of the General Conference in December 1995, has emphasized UNIDO's dual role as a world-wide forum for supporting and promoting industrial development, and as a provider of integrated technical cooperation services. The global forum and technical cooperation functions are closely interlinked and complementary. For example, lessons learned at the project and subsectoral levels through implementing technical cooperation often provide valuable information for dissemination to policy makers and institutions throughout the developing world. Conversely, policy-level debates on new approaches to industrial development inform fieldwork performed as part of the technical cooperation function.

B. Global forum function

19. The global forum function of UNIDO will be extended in scope during the medium-term programme period. The purpose will be to provide Member States with a platform where:

(a) Global industrialization issues can be debated;

(b) Understanding and consensus on international issues related to industry can be achieved;

(c) Reliable and clear information can be obtained in a fast and transparent way;

(d) Industrial performance can be compared against international benchmarks;

(e) An understanding can be reached on needs for improvement.

20. UNIDO will also assist in: building understanding between developed and developing countries and economies in transition on global interdependence; promoting partnerships and initiatives to support international industrial cooperation; disseminating knowledge on new approaches to industrial development; transferring the lessons of industrial development between countries at different levels of development and from different developing regions; and stimulating economic and technical cooperation among developing countries at different levels of industrialization. To the extent that Member States wish to make use of it, UNIDO will provide a negotiation forum for issues such as minimum environmental standards in various industrial undertakings, such as in export-processing zones, and the practical industrial application of decisions taken at major United Nations conferences on economic and social issues.

21. The development of the global forum function in the medium-term programme period will mainly depend on the nature of requests from Member States. Much will also depend on the results of pilot activities, initiated during 1996-1997. Assuming a positive acceptance of those pilot activities, the following functions will be emphasized during the programme period:

(a) The provision of pre-auditing of certification bodies for ISO standards (ISO 9000, 14000 and successor standards) in developing countries and countries in transition. The pre-auditing and related enhancement services from UNIDO will prepare accreditation bodies to apply to QSAR (quality system assessment recognition) both for the utilization of the QSAR logo and the corresponding "mutual recognition agreement for international recognition of certificates.

(b) The presentation of a set of industrial development indicators that will permit countries to judge their industrial performance at the global level and identify strengths and weaknesses in this respect.

(c) The initiation of a system of auditing and certification of science and technology parks. Owners or

managers of such parks will be able to request UNIDO certification of the standard of their facilities. This can be used subsequently for marketing and investment promotion purposes. Support programmes for bringing science and technology parks up to international standards will be offered.

(d) The benchmarking and comparison of industrial processes against voluntary international technological and environmental standards based on a life-cycle assessment (LCA) of industrial products and processes. UNIDO services for support and training in LCA, which is foreseen to be included in the ISO 14000, will be available.

(e) The provision of a negotiation forum and technical support for Member States that wish to perform bilateral and/or multilateral negotiations on specific issues of industrialization, such as the conditions for accessing regional/global trade or economic integration agreements.

Studies, research and statistics

22. The UNIDO programme in studies, research and statistics will seek to consolidate the changes in its structure and focus introduced at the beginning of the 1996-1997 biennium, and to develop and expand the new initiatives launched in the wake of these changes. The programme will continue to be divided into two separate parts dealing respectively with statistics-related issues and with broader economic and industrial sector and policy studies. The priority activities of these two subprogrammes are presented separately below.

Industrial statistics

23. The medium-term thrust of this programme will continue to be aimed at providing the statistical resources needed for UNIDO to be able to perform its global forum function. In particular, this programme will be oriented towards:

(a) The dissemination of increasingly detailed data on world industry;

(b) The preparation and dissemination of analyses, manuals and case studies to support external data producers and users in their efforts to collect and utilize industrial data both at the national level and at the level of manufacturing enterprises;

(c) The provision of normative functions, such as the standardization of reported data to account for differences in country coverage, concepts and definitions, will continue to be emphasized in order to ensure that users have access to internationally comparable industrial data, both across countries and between industries.

24. There will be increased technical cooperation with producers and users of industrial data, with a view towards expanding the coverage and standardizing the output of national data collection agencies. There will also be an increase in technical cooperation at the enterprise level, with a view to developing objective numerical indicators of both performance and quality control, thus implementing UNIDO's honest broker function.

25. Cooperation with the Organisation for Economic Cooperation and Development (OECD) will remain extensive and continuous in order to ensure harmony between statistical reporting in the developed and developing worlds. This relationship will be essential as UNIDO and OECD are the only international organizations compiling international industrial data. Active cooperation with all other international agencies will continue to be maintained through the ACC Subcommittee on Statistical Activities.

26. Efforts will be made in the medium-term programme period to develop the industrial component of indicators of sustainable development, within a United Nations system-wide project. Indicators will also be developed for measuring the industrial component of international competitiveness.

Research and studies

27. In the medium-term programme period the programme will focus on the following objectives:

(a) To monitor and identify new developments in the rapidly changing global economic and industrial environment; and to conduct industry-related economic studies aimed at enabling national decision makers to achieve a better understanding of the impact of these developments and other medium and long-term industrialization issues;

(b) To provide a forum for elaborating industrialization strategies and other initiatives related to the global industrial development process;

(c) To provide an in-house forum for developing the vision, policy, and initiatives of the Organization related to the global development process; and to promote UNIDO as a centre of excellence for industry-related economic analysis;

(d) In pursuit of these objectives, the programme will continue to focus its activities on the publication of the annual *Global Report* and the implementation of a

regular programme of industrial sector and policy studies. In addition, *ad hoc* studies and forum functions will be carried out on long-term industrialization issues as necessary;

28. The *Global Report* will, *inter alia*, assess the latest trends in global industrial development, focusing on areas relevant to the priority themes of UNIDO, and highlight key industrial and economic trends and issues with a view to providing industrial strategy and policy advice to Member States, in particular the least developed countries.

29. Industrial sector studies will be aimed at assessing and analysing the comparative advantages of selected major industries in developing countries and countries in transition. They will seek, in particular, to identify the critical requirements and strategic options for enhancing the performance and competitiveness of these industrial sectors at the national and regional level, with a view to providing inputs for policy-making by Governments, corporate planning by the private sector and programme development by UNIDO.

30. Industrial policy studies will be continued as comparative studies of market-oriented industrial policies and issues in selected regions and countries. These studies will be aimed at permitting experience-sharing between Member States and providing them with policy inputs for the development of industry-related strategies and policies. The findings of these studies will be published, *inter alia*, in a periodic analytical report, the *Industrial Policy Report*.

C. Technical cooperation function and the seven thematic priorities

31. The development and implementation of technical cooperation programmes under the seven thematic priorities of UNIDO will build on multi-disciplinary inputs from across the Organization, combining sub-sectoral with functional, cross-sectoral expertise. An enhanced integration and synergy will also be ensured between the Organization's analytical and research capacities, information services, promotional activities, and genuine technical cooperation programmes. In 1996, the cross-organizational thematic priorities were aligned with a redesigned project cycle management system (see UNIDO/DGB(P).8 in which component coordinators have been assigned the responsibility of pooling UNIDO's expertise to serve each thematic priority). This new approach will gradually lead to the development of larger integrated programmes which will show their full impact in the medium-term programme period.

1. Strategies, policies and institution-building for global economic integration

The issue

32. The liberalization of national and international trading environments, the growth in foreign direct investment, rapid technological change, and the emergence of new forms of inter-firm cooperation have all contributed to an increasingly integrated international system of production. These developments make it imperative that a competitive edge is maintained at the enterprise and sectoral levels. To a large degree, the international distribution of poverty will reflect the ability of countries to actively participate in this globalization process.

33. Countries and individual regions within countries have very different possibilities for creating or retaining industrial competitiveness. To strengthen their position many countries have joined multinational groupings, while others have found it either undesirable or difficult to do so. In either case, as far as the industrial sector is concerned, technical support to achieve international competitiveness will be required.

34. There are important function for Governments in formulating economic, industrial and trade policies, in providing a stable and transparent legal and administrative framework and in making available services not easily supplied by the private sector. Some of these functions, however, are becoming increasingly difficult to perform for Governments facing severe budget constraints. At the same time, private firms often need to downsize and increase productivity in order to survive in a highly competitive environment, with an obvious negative impact on employment and incomes. The task is, therefore, to induce cooperative efforts between government and industry in seeking to meet the challenge of competitiveness while preserving social stability.

The support programmes of UNIDO

Industrial strategy and policy advice

35. In the medium-term programme period UNIDO's industrial strategy and policy services will primarily aim at: suggesting effective policy measures to Governments and building up institutional capabilities for policy-making and implementation; disseminating information on industrial policy issues; restructuring of government

agencies and assistance in reinforcing administrative systems; promotion of business organizations; facilitating the transition of ownership from public to private enterprise; and strengthening the ability of private sector organizations to take part in policy design and implementation. To this effect, UNIDO will continue to develop its core services in a cost-effective and timely fashion, creating new services according to the changing needs and demands of Member States. The core service of interactive policy formulation will be used as an instrument within the Alliance for Africa's Industrialization.

36. In order to cope with new challenges UNIDO will have to provide new services, such as, for example, assisting countries to accede to international groupings, associations and agreements. Particularly in Africa, the issue of effective subregional cooperation and integration as a first step to improving the possibilities for participation in a wider system of trade and investment is of prime importance and will be supported by UNIDO in so far as the industrial sector is concerned.

37. Another important area of focus will be to promote the development of less developed regions within a country. In general, a system of decentralized industrial policy, at the regional level, may provide part of the solution. Within the framework of semi-autonomous regional industrial development authorities the interests of the public and private sectors may be combined for the benefit of a specific region, and support the creation of competitive industrial clusters. The benefits of those decentralized activities should be tangible and clear enough to create a greater willingness among all partners concerned (Governments, NGOs, enterprises, and the population at large) to carry the financial burden of the necessary measures. A well-functioning regional industrial development authority could also serve as a financial conduit for national and international investment—a missing link today in many countries and regions.

38. The demand for UNIDO services on industrial strategies and policies is expected to remain large. In the countries in transition a key problem is that while substantial funds are available to support the restructuring process, only limited funds are allocated for the technical cooperation necessary to increase the capacity of recipient countries to absorb these investment funds. UNIDO will continue to work together with international agencies and financing institutions, within and outside the United Nations system, in order to provide this missing strategic link. The main responsibility, however, rests with donors and financing agencies which should reserve a part of their funding for capacity building and restructuring measures, an area in which agencies such as UNIDO have a long practical experience.

Advisory and institutional support services addressing industrial implications of global and regional economic agreements

39. At the regional and, in particular, the subregional level, there has been a renewed emphasis in recent years on the creation and/or strengthening of economic cooperation agreements both among developing countries and between developed and developing countries. Trade policy considerations, such as the harmonization across countries of tariff schedules, are central to most of today's global and regional economic agreements. Transitional economies in particular are faced with a dramatic shift in their traditional trading patterns, from a situation dominated by highly regulated exchanges of goods and services to one driven by market forces in the competitive setting of a global marketplace. These issues have a direct bearing on the prospects for domestic manufacturing, and on the range of instruments in support of industrial development available to the policy maker.

40. UNIDO will continue to add to its already substantial experience in providing advice and support to regional and subregional economic groupings. Much of this work to date has focused on the implications for industrial restructuring of market integration. Examples are subsectoral assessments of competitiveness in MERCOSUR; cooperation in investment, industry-related services and information networks among the Maghreb countries; and cross-border cooperation between neighbouring countries in Asia. With less emphasis in the future on formal institutional arrangements and more on policy coordination and harmonization, there will be an increasing need for an honest broker such as UNIDO to provide neutral advice.

2. Environment and energy

The issue

41. Environmental concerns—both global and national—have emerged at the forefront of the international policy agenda over the last two decades. With the adoption of Agenda 21 and related conventions, the world community has committed itself to a comprehensive international policy statement on the need to pursue sustainable patterns of development. Agenda 21 has profound implications for industrial policy and industrialization patterns in developing countries and poses three critical challenges: (a) to ensure protection and conservation of environmental resources in the most cost-effective manner; (b) to meet obligations under global environmental treaties; and (c) to avert potential competitive disadvantages for developing countries' industry which may emerge from international environmental norms and standards.

The support programmes of UNIDO

Environmentally sustainable industrial development (ESID) strategies

42. One of the most significant challenges of industrial development is to pursue patterns of competitive industrial production that are socially equitable and environmentally responsible. To assist Governments and the private sector to meet this challenge, UNIDO will support in the medium-term programme period: (a) national networks of industry-oriented institutions (such as sustainable development commissions, ministries of industry, industrial associations and public policy research institutes) that participate in the ongoing process of revising and implementing national sustainable development strategies (NSDS) called for by Agenda 21; (b) industrial environmental programmes that enhance national capacities to effectively regulate industrial polluters; (c) voluntary initiatives, such as environmental management systems, economic incentives and voluntary agreements, that complement regulatory programmes; and (d) area-wide environmental quality management planning that enhances capacity to prepare spatial environmental plans in areas where industrial activity is a major threat both to human health and welfare and to environmentally sensitive areas.

Clean and safe production

43. While attempting to optimize the conservation of all resources, cleaner production efforts place particular emphasis on the efficient use of chemicals, water and energy in industrial processes. The primary initiative is on pollution prevention measures, waste recovery and recycling, while residual pollution will be mitigated via effluent/pollutant treatment. During the medium-term programme period UNIDO will build on its extensive experience in providing technical assistance in this field, both at the industry sector-wide and subsectoral level.

44. In cooperation with United Nations Environment Programme (UNEP), UNIDO has launched a programme to support national cleaner production centres (NCPCs), as a cost-effective and sustainable capacity-building and demonstration effort. NCPCs provide technical information and advice, stimulating the demonstration of cleaner production techniques and technologies, and training industry and government professionals. During the medium-term programme period the network of NCPCs will be further strengthened and expanded. The NCPCs will also be used as vehicles for the promotion of technology transfer and investment in clean technologies. UNIDO will assist countries in formulating policies that encourage cleaner production and enhance the capacity of national productivity and environmental institutions to carry out cleaner production programmes. Several types of capacity-building will be undertaken in the cleaner production field, depending on whether the assistance is at the policy, institutional or enterprise level.

45. In the medium-term programme period UNIDO will further develop several thematic, global and interregional programmes. The first of those programmes will address industry-related water issues. Second, UNIDO will develop initiatives in the field of waste management. Third, within the context of its participation in the Inter-Organizational Programme on the Sound Management of Chemicals, and the Inter-Governmental Forum on Chemical Safety, UNIDO will focus on developing risk reduction programmes in the manufacture and use of toxic chemicals. Fourth, UNIDO will further pursue its integrated programme on introducing new technologies for abatement of mercury pollution.

Implementation of international protocols, agreements and conventions

46. UNIDO will continue to actively support developing countries in implementing a number of international agreements, the most important of which are the Montreal Protocol and the United Nations Framework Convention on Climate Change (UNFCCC).

47. In 1992 UNIDO became the fourth implementing agency of the Multilateral Fund for Implementation of the Montreal Protocol. UNIDO project managers take responsibility for the entire project cycle, from formulation through implementation, supported by in-house financial, training, legal, purchasing, recruitment and contracting experts. Evaluation services are also available in-house. UNIDO is also able to provide post-project follow-up services to the assisted firms, for instance in equipment maintenance.

48. New areas to be targeted under the Montreal Protocol will include methyl bromide, an ozone-depleting substance used as a fumigant in agriculture, and, pending guidelines from the Montreal Protocol's Executive Committee, tobacco fluffing (for which use is made of CFCs). UNIDO will also give greater emphasis to projects in Africa as well as projects for small and medium-scale enterprises (pending a decision on appropriate guidelines by the Executive Committee).

49. In the programme period UNIDO will also play an active role in supporting other international agreements, such as the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, the Convention on Biological Diversity (with a focus on the sustainable use of bioresources and the safe management of biotechnology), the Global

Programme of Action for the Sustainable Development of Small Island Developing States and the Rio Forest Principles (where UNIDO will participate in inter-agency efforts for sustainable utilization of wood and non-wood forest resources).

50. UNIDO will also seek to take a lead role in assisting countries to meet obligations under international protocols, agreements and conventions concerned with industry and water. These include, for example, the Global Programme of Action for the Protection of the Marine Environment from Land-based Activities, adopted by the intergovernmental conference on this issue in Washington (November 1995), as well as ongoing initiatives to establish a global agreement on the management of freshwater resources. UNIDO will be involved in these initiatives through active participation in the ACC Subcommittees on Freshwater Resources and on Oceans and Coastal Areas. Accordingly, a comprehensive UNIDO programme on industry and water will be developed, and implementation started in the programme period, to address industrial water use, industrial waste water treatment, and water system engineering.

51. As concerns UNFCCC, UNIDO has gained recognition by both the Climate Secretariat and the Parties to the Convention as a valued participant in the UNFCCC process. The Global Environment Facility (GEF) is the financial implementation mechanism of UNFCCC. As yet, UNIDO is not a GEF implementing agency. However, through its long-established energy programmes, the Organization will continue to provide technical assistance at the policy, institution, and enterprise levels which contributes to the reduction of industry and energy-related greenhouse gas emissions.

52. The GEF has established operational criteria for "enabling activities for the preparation of first national communications on climate change". UNIDO will participate in the preparation of specific components of such national communications from developing countries, such as the identification of programmes to reduce the growth of carbon dioxide emissions from the industry and energy sectors. Assistance in the identification of such programmes is expected to precede subsequent involvement in the implementation of energy projects funded by the GEF and other financial instruments.[3]

53. With regard to UNFCCC, during the medium-term programme period UNIDO will:

(a) Continue to assist the Convention Secretariat with tasks related to technology transfer requested by the parties, in particular: the preparation of an inventory and assessment of climate-friendly technologies; reporting to the parties on access to and transfer of environmentally sound technology; and establishing specialized information centres;

(b) Assist developing countries in preparing their national communications based on UNIDO methodologies and support in capacity-building;

(c) Support the application and, where appropriate, local manufacture of technologies for clean coal and renewable sources of energy;

(d) Convene investment forums to promote projects that reduce greenhouse emissions, to be held during climate negotiation meetings. Projects will be identified suitable for financing by the GEF as measures to mitigate climate change, or as activities implemented jointly under UNFCCC.

Industry-related environmental norms and standards

54. Environment-related industrial norms and standards are of increasing concern to developing countries both as a potential source of cost increases in production and as a possible non-tariff barrier to trade. In the medium-term programme period UNIDO will concentrate on the following fields:

(a) Cooperation with international and regional organizations in building industrial consensus for voluntary environmental and social guidelines, such as the World Bank/UNIDO/UNEP Industrial Pollution Prevention and Abatement Handbook and the UNEP Technical Guidelines Series;

(b) Assisting developing country industries to take advantage of environmental management systems (such as ISO 14000);

(c) Cooperating with paramount international industrial associations to formulate internationally agreed criteria for eco-labels in selected subsectors.

3. Small and medium enterprises: Policies, networking and basic technical support

The issue

55. While the majority of UNIDO programmes and operational activities address the support requirements of small and medium industrial enterprises (SMEs) the activities under this thematic priority are aimed at creating an overall policy and institutional environment for SMEs to prosper. As significant agents of economic growth and employment creation SMEs are an essential component in the industrial development strategies of most countries. In most developing countries, however,

the possibilities for SMEs to seize new business opportunities are seriously constrained by limited access to financial, informational, human and technological resources. The lack of a conducive legal and regulatory framework, and physical infrastructure, is also problematic. Essential linkages with business partners and markets, such as through subcontracting arrangements, are often weak.

The support programmes of UNIDO

Policy analysis and advice

56. Governments generally take measures to enhance the SME sector's contribution to overall economic growth and other socio-economic objectives. However, despite such commitment, a coherent SME development strategy often does not emerge. UNIDO's approach in the programme period will therefore continue to aim at: assisting Governments to formulate national strategies and programmes to promote the development of the SME sector; improving the policy and regulatory environment in which SMEs operate; strengthening national capabilities in order to collect and analyse SME sector-related information for policy and strategy formulation; assisting Governments and their national institutional partners to develop mechanisms to ensure effective implementation of strategies and policies, including cooperation between institutions as well as the regular interaction of industry associations and support institutions with Government.

SME support systems and institutions

57. UNIDO will seek to improve the access of SMEs to an efficient network of technical and financial services, helping them to continuously up-grade their skills, products and process technologies and develop effective linkages to business partners and markets. UNIDO's approach will concentrate on: strengthening institutions such as SME development agencies, industry associations, chambers of commerce and industry, business incubation and technology transfer centres, enabling them to provide quality services on a demand-driven basis. In promoting SME support networks (which include both non-profit organizations and commercial consultancy services), programmes will be developed to focus on the needs of the specific target groups of enterprises such as companies starting-up, growing, innovating, requiring rehabilitation, or seeking to internationalize. The key objective that will be pursued is the promotion of networking among SME support institutions, and exchange of information and experience on best practice, both at national and international levels.

Networking of SMEs

58. This work will have two distinct dimensions: (a) the promotion of industrial subcontracting and partnerships (with a focus on cooperation between large enterprises and SMEs, as well as subcontracting among SMEs), and (b) promoting subsectoral clusters of SMEs. UNIDO's activities in the promotion of industrial subcontracting and partnerships will include: advice to Governments on policies and programmes for the promotion of industrial subcontracting and partnerships; technical assistance in establishing and operating national subcontracting and partnership exchanges (SPX); promotion of the establishment of national, regional and international networks of SPXs, including the "UNIDOSS Club" which will eventually act as a global sourcing network and which will be linked to other UNIDO data banks and networks; and the organization of, or participation in, international fairs for industrial subcontractors, suppliers and partners.

59. In environments of greater industrial sophistication UNIDO will seek to integrate the subcontracting function with other programmes of the Organization such as in total quality management, investment promotion, industrial information and technology services. In addition, for more advanced areas, UNIDO will launch "partnership development programmes" for the upgrading of industrial subcontractors and suppliers. This will allow subcontracting exchanges to meet the trend towards long-lasting and stable industrial partnerships and exploit opportunities arising from the emergence of industrial clusters in particular geographical areas.

60. In the promotion of subsectoral clusters of SMEs, UNIDO will assist all partners involved—SMEs, institutions and government—to develop their capabilities to foster the creation and growth of clusters of firms.

4. Innovation, productivity and quality for international competitiveness

The issue

61. The globalization of industrial production and trade places new competitive demands on developing-country firms and institutions. Increasingly, the determinants of competitiveness include: the ability to source, distribute and network internationally; the flexibility and speed of the entire design, production and commercialization process; the attainment of high levels of product quality, and production with efficient use of inputs. Systems of support to industrial competitiveness adopted in most, if not all, developed countries need also to be implemented by developing countries. Such support covers services by

institutions specialized in technology management, including technology transfer and R and D, human resources development, information and data systems, venture capital financing, as well as metrology, standardization and testing, and management and engineering consulting.

The support programmes of UNIDO

Enterprise restructuring and privatization

62. Privatization and enterprise restructuring are complementary processes that involve a wide range of specialized skills, many of which are available within UNIDO. These skills include financial analysis, investment promotion, management training and installation of management systems, technological diagnosis and management of technical innovation. In restructuring and privatization, UNIDO will implement during the medium-term programme period two major types of programmes and projects. One type will consist of comprehensive support, for example in privatization, in determining privatization strategies, introduction of adjustments in the policy and regulatory frameworks, in training staff to oversee the privatization process, and assisting the installation of information tools to manage the process. In restructuring, a comprehensive package of services will aim at bringing production and distribution systems in developing countries to competitive levels.

63. The other type of programme will consist of specific technical inputs such as, for example, advice on how to break up large enterprises into smaller, coherent units, and assistance in dealing with issues such as unemployment resulting from restructuring and privatization, or the harnessing of private sector dynamism through application of BOT-type project financing arrangements for essential industrial infrastructure and services.

64. Further, in response to the needs of LDCs and of countries with an incipient private sector, UNIDO will customize technical cooperation programmes dealing with non-divestiture forms of privatization[4] and restructuring of state-owned enterprises that are unlikely to be privatized in the foreseeable future.

Research and development for industrial innovation

65. UNIDO possesses expertise in science and technology policy formulation and assessment, institution-building, and technology management at all levels, as well as expertise in new cross-sectoral technologies such as biotechnology, microelectronics, new materials and others. The Organization likewise possesses in-depth knowledge of the technologies used in all industrial subsectors of major importance for developing countries. During the medium-term programme period UNIDO will continue to assist in establishing and strengthening national, regional and global industrial research and development institutions and technology transfer activities. Preparatory work has been initiated in this connection on the subjects of hydrogen technology, the advancement of manufacturing technology, and materials evaluation technology.

66. UNIDO will likewise support the reorientation of existing public sector institutions to changing economic environments, create and demonstrate new tools and guidelines for the effective deployment of technology in industrial enterprises, and develop institutional arrangements to improve linkages between industry and institutions engaged in research and development.

67. To facilitate the widespread introduction of renewable energy technologies, UNIDO will also disseminate information on the application of such energy sources as solar, wind and sustainable biomass energies (the Organization has recently established a specialized Centre for the Application of Solar Energy in Australia).

Quality management

68. UNIDO's quality, standardization and metrology programme provides multi-disciplinary services at the policy, institutional and—through industrial associations—at the enterprise level. The Organization's work in the medium-term programme period will concentrate on two areas: support to industrial production, and strategic management. Work in production will entail support to the management of the production process, and assistance in technical quality control issues such as the introduction of methodologies like total quality management, just-in-time manufacture and statistical quality control. UNIDO's support in strategic management will involve providing assistance to groups of firms in the formulation of objectives and plans, in the evaluation of company performance (using specially developed UNIDO software) and in the establishment of business strategies.

69. UNIDO will also work towards the establishment of an international scheme of mutual recognition agreements among accreditation bodies in developing countries to cover ISO 9000 certification, with the possibility of extension to the ISO 14000 series if certification is required.

5. Industrial information, investment and technology promotion

The issue

70. Industrial investment is an important determinant of growth in national income. The past decade has seen major increases in flows of investment and technology from developed to developing countries. However, there are great disparities in such flows between countries and regions. Many developing countries lack information on technological opportunities as well as the human resources to handle the technology transfer process effectively. This is important, as competition is becoming increasingly technology-driven. To assist developing countries in this area, UNIDO will offer support at the levels of policy, institutions, and enterprises. Training will be fundamental to assistance at all three levels.

The support programmes of UNIDO

Technological and investment information

71. Through activities in technical cooperation, research and statistics UNIDO has generated a unique information resource on technology transfer in a variety of industrial subsectors. Access to this information resource will be facilitated during the programme period through UNIDO's presence on the Internet, which will be continuously updated to include UNIDO-generated business opportunities such as in technical cooperation projects and investment and technology partnerships. UNIDO's International Referral System— which contains an inventory of all the specialized sources of information capable of handling technical inquiries in each Member State of UNIDO—will be expanded to provide access to information on investment and financial institutions. National information networks will continue to be established and strengthened to provide small and medium enterprises with easy access to existing national and international services, as well as to the services provided by UNIDO.

72. UNIDO networking support will be continuously provided to UCD offices, Investment Promotion Services, investment promotion agencies and technology centres in developing countries. Linkages with partner organizations in investment and technology transfer, such as the World Bank (MIGA, InfoDev), UNCTAD, leading commercial companies and others, will be expanded and strengthened to provide more effective and efficient information support to Member States.

Investment promotion

73. Through a variety of services to Governments, institutions and firms, UNIDO assists small- and medium-scale manufacturers in establishing international cooperation agreements. For the promotion of investment, UNIDO operates a network of Investment Promotion Services (IPSs). These are located in major commercial centres, mainly in developed countries, and are in daily contact with local business communities. Investment promotion is enhanced by the organization of investment forums, each bringing together potential investment partners for direct negotiations on individual projects. Such forums will be arranged on a regular basis throughout the programme period. Investment appraisal services will also continue to be provided, employing the UNIDO Computer Model for Feasibility Analysis and Reporting (COMFAR) methodology developed by UNIDO and now used world-wide. New IPSs in developing countries and economies in transition are planned to be established in the programme period and will be instrumental in enhancing South-South investment flows. Training will also be provided on all major topics involved in project identification, preparation, appraisal, negotiation, financing and implementation.

74. The emphasis of the programme will be on enhancing networking to facilitate the rapid and effective transmission of investment proposals from the developing countries to IPSs in developed countries. An emphasis will also be placed on programmes tailored to the requirements of LDCs. The sectoral expertise available in UNIDO will be harnessed in support of the investment promotion programme.

Technology promotion

75. UNIDO will continue to assist developing countries in gaining access to and absorbing industrial technology. Through an array of complementary programmes, services and tools, UNIDO will help institutions and enterprises to strengthen their capability to conduct effective technology transfer operations, establish technology partnerships and take advantage of such innovative transfer mechanisms as BOT projects and strategic business alliances. The promotion of technology transfer will take into account the interrelationship with investment promotion.

76. The Techmart programme—a mechanism to match technology seekers and suppliers and assist in the implementation of partnerships—will be further developed by: offering follow-up services, such as advisory services on the identification of technology needs and contract negotiations; articulating the promotion of technology with the promotion of investment in the form of Intechmarts; identifying technology transfer opportunities at the level of industrial subsectors; supporting specialized Techmarts and Intechmarts in such fields as biotechnology, new materials and clean technologies. Networking with technology transfer

agencies will be pursued as a way to identify reliable technology sources and improve the matchmaking process.

77. UNIDO's *Manual on Technology Transfer Negotiations* and related training materials will serve as tools to meet the increasing demand for assistance in technology acquisition and negotiation. Indigenous capacities will be strengthened through enhancing the skills of local consultants and trainers who, in turn, will assist and train technology users. New and upgraded teaching modules, advisory kits and model contracts will be developed to address evolving needs.

78. UNIDO has developed a comprehensive programme in the field of BOT covering: elaboration of guidelines and standard procedures; policy advice; assistance in capacity-building and training and technical assistance for specific BOT projects. The BOT strategy will continue to be promoted both as a means to finance infrastructure and as a channel for technology transfer. Tools for technical assistance will be enhanced through the revision and preparation of appendices to the existing UNIDO guidelines on BOT, and the preparation of a BOT data bank.

6. Rural industrial development

The issue

79. For most developing countries, sustainable rural industrial development is a key to overall socio-economic development, as the majority of the population still lives in rural areas and is heavily dependent economically on agro-based productive activities. Furthermore, industrial development also needs to be spread in a more balanced way, with a more evenly-distributed build-up of productive capacity in disadvantaged or peripheral regions within countries so that their potential can be fully realized and social progress accelerated. The marginalization of large rural areas has encouraged migration to cities, adding to urban congestion and its associated costs. UNIDO addresses issues linked to rural industrial development in a coherent and comprehensive manner, with targeted interventions at the policy, institutional and enterprise levels, paying attention to sustainability and gender issues.

The support programmes of UNIDO

Regional development

80. During the medium-term programme period UNIDO will undertake the following activities, *inter alia*, in supporting regional development: strengthening of capacities for policy formulation and implementation, administration and mobilization of resources at the regional level; strengthening of support delivery capabilities in a range of industry-related institutions and associations; strengthening private sector institutions and the involvement of regional/local business communities; and promoting and developing rural micro- and small-scale industrial enterprises for employment and income generation. The work done on regional development will be strengthened by drawing on the lessons learned in implementing thematic priority 1, and specifically the regional dimension of the component "industrial strategy and policy advice".

Agro-processing

81. Agro-processing accounts for the highest sub-sectoral share of industrial output in most developing countries. Within UNIDO, expertise is available in the following industrial subsectors: cereals and tubers, sugar, oils, meat and fish, dairy products, fruits and vegetables and high value-added food products, hides and skins, natural rubber processing, textiles, wood products and medicinal plants. Furthermore, UNIDO can integrate technical and economic expertise with knowledge of markets and investment promotion, environmental and gender impact analysis, information, management and policy-level activities at the national (macro) and enterprise (micro) levels, while providing the necessary link between industrialization and socio-economic development.

82. In the medium-term programme period particular attention will be given to the development of activities in the wood products industry in Latin America and South-East Asia, as well as food-product industries in Latin America.

Building materials and low-cost housing

83. A focus on the production of building materials and low-cost housing can yield significant returns in terms of employment and the betterment of living standards for rural and less affluent segments of the population. UNIDO will continue to provide technological and managerial support to the building materials industry, focusing on low-cost housing. The promotion of mineral-based and wood-based materials, especially in rural housing, is particularly important in order to ensure the availability and increased use of materials and construction technologies based on local resources. In the medium-term programme period the programme will focus on housing needs in Africa and Asia.

7. Africa and the least developed countries: Linking industry with agriculture

The issue

84. This is the only thematic priority with a geographical focus, and encompasses a wide variety of sectoral and subsectoral activities aimed at enhancing agricultural production and increasing the competitiveness of agro-based industries. The emphasis on linking industry with agriculture is in line with the current predominance of the agricultural sector in the economies of African and LDCs, the potential long-term international competitive advantage for these countries that lies in agro-based products, the multiple forward and backward linkages between the industrial and agricultural sectors and the potential impact of these linkages on poverty alleviation, employment and income generation.

The support programmes of UNIDO

Agro-processing

85. UNIDO's programme in the area of food processing and preservation will focus on: the industrial transformation of indigenous cash and food crops; the enhancement of the local production of low-cost nutritionally enriched foods; the improved processing of by-products of meat and fish-processing industries; enhancement of the efficiency of traditional fish-processing industries; assistance to the sugar industry in Africa, and improved food safety through upgraded quality assurance systems in food manufacturing in African countries.

86. The UNIDO wood industries programme will be directed towards the provision of advice and assistance in the elaboration of integrated programmes for the development of wood manufacturing industries based on sustainable management of natural forests, plantations and woody materials (e.g. bamboo, rattan, and cane). These programmes will include, *inter alia*, investment projects, the training of production managers and technicians, the preparation and harmonization of wood structural design codes and standards, and the development of prefabricated modular wooden bridge systems and other structures.

87. UNIDO's programme in leather and leather products will focus on: expansion of the regional Africa hides and skins, leather and leather products improvement scheme and the associated regional Africa leather and footwear industry scheme; promotion of the export of finished African leather and leather products; strengthening of the existing leather and leather products institutes in the region; promotion of low-waste methods of leather processing as well as treatment of tannery waste; occupational health and safety; training; and enhancing the capabilities of women entrepreneurs in the footwear and leather products industry.

88. The UNIDO programme in the textiles industry will be directed towards enhancing the competitiveness of the textile industry; enhancing women's capabilities in the design, range and quality of hand-crafted textile products, and studying the viability of establishing sub-regional training centres in the textile and garment industries.

89. Assistance in the processing of medicinal and aromatic plants and non-wood forest products will be directed towards assisting selected African countries and LDCs in formulating and executing national and sub-regional programmes for the manufacture of natural product-based chemicals (including essential oils and flavours), and for improving their competitiveness in the markets of developed countries.

Agricultural equipment

90. The UNIDO programme in the area of agricultural equipment will concentrate on assistance to African countries and LDCs in: the development of agricultural machinery and rural equipment, including equipment for irrigation and off-farm rural activities; the development of agro-related metal-working industries, in particular the establishment or improvement of medium-scale plants for the manufacture of agricultural hand tools and implements, the promotion of private sector investment, and related policy measures.

Chemical industry inputs to agriculture

91. The UNIDO programme on chemical industrial inputs to agriculture will provide, *inter alia*, assistance to African countries in risk reduction in agro-chemicals development, covering organic fertilizers, bio- and botanical pesticides, ecotoxicology and sound management of toxic chemicals. The activities and outputs will include the establishment of a network covering at least six African countries. Seed dressing and post-harvest treatment will also be pursued for the benefit of small- and medium-scale farmers in a number of countries. Assistance is foreseen to animal vaccines production on a subregional basis, as well as on the supply of basic organic chemicals using biotechnology. The UNIDO programme will also seek to strengthen developing country capabilities to search for and find economically feasible alternatives to those agrochemicals classified as ozone depleting substances or persistent organic pollutants to be phased out in the frame of the Montreal Protocol or Agenda 21.

92. Assistance will also be provided to African countries in the area of pulp and paper industries to foster sustainable management of raw materials, introduce new technologies and ensure proper waste water treatment. UNIDO will continue to assist African countries in the production of plastics for agriculture (including polyethylene sheets for greenhouses and PVC pipes for water irrigation).

D. Special considerations

93. The preceding sections described UNIDO services under each of the seven thematic priorities in the medium-term programme period. At the same time, there are a number of issues which cut across all thematic priorities and, accordingly, are relevant throughout the programmes and activities of UNIDO. These "special considerations"—encompassing the integration of women, human resources development, private sector development, and economic and technical cooperation among developing countries—are addressed in the present section. Finally, this section also deals with medium-term priorities in the various developing regions.

1. Integration of women in industrial development

94. The main orientations that will guide the medium-term programme of UNIDO for a fuller integration of women in industrial development are contained in the Beijing Declaration and in the Platform for Action: Equality, Development and Peace, adopted by the Fourth World Conference on Women, held at Beijing in September 1995. Both documents strongly emphasize the need to promote women's economic independence, including entrepreneurship and employment, by ensuring women's equal access to economic resources, including land, credit, science and technology, vocational training, information, communications and markets.

95. Women constitute an overwhelming proportion of the more than one billion people living today in poverty. At the same time, global changes have created new opportunities which women need to pursue. To enable this, they must be supported by a comprehensive human resources development policy. For example, many small-scale, informal activities traditionally conducted by women make a substantial contribution to output and value added in the productive sector. However, women's entrepreneurship potential is rarely realized beyond the basic level required to sustain the family, in large part because of a lack of training. Thus, frequently, a resource for promoting economic growth remains untapped.

96. During the medium-term programme period, UNIDO's strategy for the integration of women in industrial development will aim at ensuring the integration and effective coordination of the international commitments of the Organization related to implementation of the Platform for Action.

97. The overall objective for the programme period is to increase both quantitatively and qualitatively the participation of women in industrial development to enable them to participate in manufacturing activities on an equal basis, in the formal and informal sectors and most especially at decision-making levels. Women-specific programmes will be developed and implemented in relation to the UNIDO seven thematic priorities, while the "gender mainstreaming" approach will be pursued by the Organization as a whole. Gender-impact analysis methods will be applied for this purpose, as will the undertaking of workshops and the dissemination of "gender-oriented" guidelines, check-lists and other tools.

98. Empirical research by UNIDO has highlighted the fact that the participation of women in the formal industrial sector has been beneficial in terms of improving key social indicators on fertility, literacy and life expectancy, but that the participation of women in the manufacturing labour force is low in quantitative terms (estimated on average to be 30 per cent) and even more limited in qualitative terms. An insignificant proportion of women occupy managerial and decision-making positions in industry. Another major finding concerns the intricate relationships between economic, social and cultural systems and the environment in which they operate. Accordingly, integrated and participatory approaches must be applied in technical cooperation programmes, such as those developed by UNIDO in the fields of entrepreneurship and gender-sensitive industrial development strategies.

99. UNIDO will thus focus in the medium-term programme period on implementation of a UNIDO follow-up action plan to the Beijing Conference. This will comprise three main elements:

(a) The furthering of policies and strategies to facilitate the integration of women in industrial development and to increase the numbers of women in managerial positions. The instruments which UNIDO will develop to fulfil this objective will include:

(i) Training packages for women managers in industry that cover not only the technical subjects of management but also self-assertiveness and awareness-building issues and approaches;

(ii) Gender training and awareness programmes on women in industry, in cooperation with other United Nations agencies and NGOs;

(iii) National integrated programmes focusing on policies and strategies for the integration of women in industry;

(iv) An up-to-date statistical database on women in industry.

(b) The promotion of entrepreneurship and industrial training/education for women. The services to be provided by UNIDO will be generated from the high impact programme for women's entrepreneurship development; the Global Learning Opportunities in Business Education cum Industry Network (GLOBE-IN), and the Human Resources Diagnosis and Reorientation Map (HRD-ROM) (see the following section on human resources development for industry).

(c) The extension of investment and information activities to provide women managers and entrepreneurs with relevant information on all matters related to industry. This will require the identification of "outreach" mechanisms to ensure that existing support services are effectively reaching female clients. UNIDO's existing investment, technology and training services will be used to achieve this objective.

100. Within the framework of UNIDO's role as a global forum for supporting and promoting industrial development, cooperation with other agencies and departments of the United Nations system as well as with NGOs will be maintained and enhanced at the national and international levels, particularly through the participation of UNIDO in the ACC Inter-Agency Committee on the Advancement of Women and the implementation of the System-Wide Medium-Term Plan for the Advancement of Women.

101. To implement the priority activities mentioned above, UNIDO has already initiated the development of specific technical assistance programmes and pilot projects. During the medium-term programme period, the application and coverage of these programmes will be expanded.

2. Human resources development for industry

102. Human resources development (HRD) activities seek to upgrade the skills of labour, raise labour productivity and increase the flexibility of the labour force in responding to changes in industry's skill requirements. HRD plays an increasingly important role in industrialization in developing countries and countries in transition. At the same time, social issues such as health, gender differentials and poverty are intimately tied to the development of human resources.

103. Both the globalization of markets and rapid technological change are altering patterns of the demand for skills both from private companies and public institutions. New approaches must be taken to tackle old problems in a changing global environment. Many least developed countries still lack basic institutions capable of supplying persons suitably trained in a range of fields required for industrial progress. In this context, UNIDO will concentrate in the medium-term programme period on the following key areas:

(a) **Sustainable capacity-building.** To assist enterprises and HRD institutions in strengthening their capabilities in training needs assessment, UNIDO will promote didactic approaches and methodologies, develop curricula and training materials, train trainers, and evaluate learning activities.

(b) **International and regional cooperation.** With special emphasis on Africa, UNIDO will develop and implement regional and interregional HRD activities to enable key industrial personnel to upgrade their knowledge and skills.

(c) **Formulation of industry-based HRD policies.** UNIDO will enhance awareness in developing countries of industry-related HRD problems and assist Governments in formulating policies and strategies on HRD for industry.

(d) **Formulation of training standards.** UNIDO will develop technical training standards for use by managers in industry.

(e) **Inter-agency cooperation.** UNIDO will develop inter-agency cooperation in the field of HRD, including the sharing of experiences on best practices related to labour market information and data, and on the use of such information in managing HRD activities. The principal organizations with which cooperation will be pursued include FAO, Habitat, ILO, UNEP, UNESCO and the World Bank.

104. Use will be made throughout of the following recently-developed tools and programmes:

(a) **Graduate Resources Integration Programme (GRIP):** An instrument for monitoring HRD needs.

(b) **Learn and Earn Programme (LEAP):** A scheme to integrate young people in industrial employment. This scheme complements GRIP by providing

opportunities for entry to industrial employment or entrepreneurship, particularly for those who have no access to tertiary education.

(c) **Global Learning Opportunities in Business Education cum Industrial Network (GLOBE-IN):** A network which includes a data bank on HRD and learning opportunities in HRD institutions in developing and developed countries as well as economies in transition. Through the Internet, GLOBE-IN is expected to meet the increasing demand for up-to-date information on learning opportunities around the world.

(d) **Maximizing Options Thinking for Visionary Enterprise Reformers (MOVER):** A methodology for promoting managerial and entrepreneurial skills by developing HRD activities for entrepreneurs, trainers and consultants for small-scale and other industrial enterprises.

(e) **Human Resources Diagnosis and Reorientation Map (HRD-ROM):** An instrument to assess human resources requirements in industrial subsectors and specific regions. HRD-ROM serves as the foundation for planning an HRD strategy.

3. Private sector development

105. The global trend for the private sector and private industry to assume a leading role in economic development is continuing. Globalization is reinforcing that trend. Two trends in the process of industrialization and its social and economic consequences can be clearly discerned. On the one hand, Governments are severely limited in their actions due to financial and political constraints. On the other hand, private enterprises are forced to rationalize and downsize owing to competitive pressures from global markets. Programmes of economic liberalization in developing countries and economies in transition have paved the way for market-led development. The role of government agencies is being reconsidered. Adequate policy and legal frameworks must be established and a modern infrastructure created in order to stimulate private enterprise. In many cases, however, neither Governments nor the business community are sufficiently prepared for these tasks.

106. Against this backdrop, UNIDO has a special responsibility. Assisting developing countries and economies in transition to create a stimulating environment for private industry is one of UNIDO's priority tasks. Presently, the following types of assistance are being provided: policy advice and building up of capacities for policy-making and implementation; increasing the ability of private sector organizations to participate in this process; improving the provision of infrastructure, information and training services to industry through private sector associations, and identifying new ways of facilitating the transition from public to private enterprise.

107. While the provision of these services will continue over the medium-term programme period, the trends referred to above will call for emphasis in the following areas:

(a) Social responsibility of enterprises. Whereas businesses must take productivity and competitiveness as their points of departure, this need not conflict with assuming greater social responsibility. Business will need a labour force that is highly educated and motivated. Several initiatives of the business community (the World Business Network, the Social Venture Network and others) aim to permit private enterprises to play a greater role in alleviating the social consequences of downsizing. To a large extent this could be done through stimulation of entrepreneurial initiatives and through outsourcing services previously provided by the Government or government enterprises to existing or new private enterprises. It is expected that the international conference on "A New Partnership for Social Cohesion", to be organized by the Danish Government in 1997, will arrive at a new international understanding in this respect. During the period 1998-2001 UNIDO will support these endeavours by assisting Governments, institutions and enterprises that wish to participate in the process.

(b) The definition and formulation of industrial policy initiatives working directly with the private industrial sector. Such policy initiatives could be formulated jointly with Governments, or presented to the Government by private sector associations as a basis for negotiation. The follow-up to the private business forums for Africa, and the Alliance for Africa's Industrialization, will provide a framework for this activity in the African context.

(c) Strengthening subregional cooperation in industry through the private sector in Africa and the least developed countries. Subregional cooperation is the means to creating an African Economic Community. Existing organizations and associations are, with few exceptions, very weak and often characterized by public sector dominance. It will be an important challenge for UNIDO to support new forms of subregional industrial cooperation based on the participation of the industrial private sector. This will include capacity-building to ensure that the interests of enterprises are channelled through representative bodies such as chambers or associations.

4. Economic and technical cooperation among developing countries

108. The importance of economic and technical co-operation among developing countries (ECDC/TCDC) has been recognized by the international community for many years. While the high potential of ECDC/TCDC is still not fully utilized, the concept is likely to assume increased importance in the future in the light of the changing international political and economic environment and its impact on the traditional structure of multilateral technical cooperation.

109. Within the framework of UNIDO's seven thematic priorities, the Organization will focus ECDC/TCDC programmes on high-impact activities at both regional and interregional levels. For example, in cooperation with WHO, UNIDO will review the needs of the plant-based-medicine subsector in African countries, and propose measures geared towards African subregional and regional cooperation as well as interregional cooperation among African and selected Asian countries such as China and India.

110. UNIDO is uniquely placed to bring to the attention of Governments the experiences and technical capabilities that have proved effective in other developing countries. In this connection, work will continue to be undertaken to expose policy makers and industry representatives from various developing countries to industrialization strategies followed in South-East Asia. Indeed, a principal goal of the future ECDC/TCDC programme will be to facilitate the provision of economic and technical assistance by more advanced developing countries to less advanced countries in each region.

111. The substantive focus of ECDC/TCDC in the future will be on strategic initiatives that are likely to have a major impact on a large number of developing countries. Its focus will encompass major development issues and themes, such as: industrial investment cooperation, joint venture and business alliances within the South, transfer of technology, environmentally sustainable development, human resources development, energy and rural development, and small- and medium-scale industry. UNIDO has undertaken a series of consultations on the development of new programmes in the following areas:

(a) Support to subregional, regional and interregional groupings, such as the Group of Fifteen, SAARC, SADC, SELA and others, to promote economic cooperation and integration among developing countries. Specific programmes will be formulated to reflect needs and requests from developing countries.

(b) Increased flows of technical assistance to LDCs from more advanced developing countries. Specific cooperation programmes will be developed in the areas of textiles and clothing, solar energy technology, environment protection and metrology.

(c) Programmes to encourage channelling of technical and financial resources to less developed regions and areas through the promotion of enterprise-to-enterprise cooperation. Emphasis will be given to agro-industry, low-cost building materials, and renewable energy resources.

(d) The creation/strengthening of an investment promotion and technology information network among developing countries. Efforts will be made to promote linkages between research and development institutions of the South and to develop institutional training programmes in relatively specialized technological fields and enhance centres of excellence at subregional and regional levels.

112. In view of the growing differentiation among groups of developing countries in different regions, careful consideration will be given to the selection of differentiated strategies and the development of programmes so as to reflect varied requirements.

113. UNIDO will actively participate in the South-South Conference on Trade, Investment and Finance convened by the Group of 77 at San José, Costa Rica, in January 1997. An industry-related action programme is being prepared for this Conference which, depending on the Conference's recommendations, will constitute an important guideline for UNIDO ECDC/TCDC activities in the medium-term programme period.

ECDC/TCDC financing and resource mobilization

114. The principal responsibility for initiating, organizing and financing ECDC/TCDC activities lies with the developing countries. Over the years a number of Governments have actively supported ECDC/TCDC activities and contributed substantially to IDF in this regard. A number of countries, such as Brazil, China, Egypt, Indonesia, Malaysia, the Philippines and Turkey have articulated a national policy on ECDC/TCDC and are active in promoting ECDC/TCDC on a bilateral basis. UNIDO will seek to complement their efforts. Some of these countries and their industrial institutions have expressed interest in co-sponsoring ECDC/TCDC

programmes on a cost-sharing basis. UNIDO welcomes this initiative and will continue to explore new cooperation options.

115. Developed countries generally support efforts of the multilateral system to promote and facilitate ECDC/ TCDC, and some have called for increased emphasis in this field, including through the use of experts from developing countries. Moreover, ECDC/ TCDC can be a cost-effective modality in the delivery of multilateral technical cooperation activities. UNIDO will intensify efforts in this direction.

5. Regional priorities

Least developed countries

116. Almost by definition, LDCs experience numerous binding constraints. These range from infrastructural, institutional and human-resource deficiencies to the fact of often being landlocked or small island countries. Consequently, assistance is required across a spectrum of activities, from policy design and implementation to institution-building. All of the services under the seven thematic priorities already described in this document will be provided for LDCs during the medium-term programme period, although some will clearly have greater relevance than others to the typical situation of a least developed country. Services of greatest relevance will include work on rural industry, on agro-related industry, and on the promotion of small and medium industrial enterprises.

117. During the medium-term programme period, particular emphasis will be placed on the issue of information exchange. In a world of increasingly rapid information exchange, the relative position of LDCs in this important field is in danger of worsening. Information exchange is essential for realizing exports, promoting investment and generally helping to reduce the transaction costs of doing business in a least developed country. UNIDO will thus seek to assess specific requirements in terms of information-related skills, infrastructure and institutions in LDCs. Subsequently, UNIDO intends to assist the establishment of information centres in a range of LDCs aimed at linking business communities and policy makers in these countries with business interests, information sources and public institutions abroad.

118. During the medium-term programme period, UNIDO will also strongly support ECDC/TCDC activities aimed at fostering the cooperation of more advanced developing countries with LDCs. A further area of emphasis will be the assessment of lessons learned in the restructuring of State-owned enterprises in LDCs. Workshops and training programmes will be undertaken to this effect. Subsequently, programmes of assistance will be formulated to help remedy key constraints on private sector development in what are, frequently, inconducive environments.

Africa

119. Industrial structures eroded as a result of the continent's inability to overcome internal and external constraints on industrialization are yet to be revitalized to meet the challenges of competition in a global market. More than any other continent, Africa is affected by shortages of technical, managerial and entrepreneurial skills, acute infrastructure bottlenecks, often weak institutional capabilities, limitations in the capacity to import and continued dependence on a small number of primary commodities. Encouraging growth trends have recently emerged in a number of countries that have adopted programmes of economic liberalization. Improved commodity prices have also assisted growth. However, for the region as a whole, medium-term prospects for significant increases in per capita incomes are not bright.

120. In an increasingly integrated world economy, Africa's industrial future is critical for the overall development of the continent. External support is required in developing strategies and policies for industrial development, in creating an efficient private sector, in implementing international environmental conventions and protocols applicable to industrial development, in developing human resources, in establishing dynamic agriculture-industry linkages, and in employment creation and poverty alleviation.

121. The precarious state of African industry led to the adoption of the programme for the Second Industrial Development Decade for Africa (IDDA). The Second IDDA concentrates on: the formulation of industrial policies; human resources development; the promotion of small and medium-scale industries; private sector development and privatization; investment promotion; technology development and transfer; support to core industries; industrial rehabilitation and maintenance, and regional industrial cooperation and integration.

122. To facilitate accelerated industrial development UNIDO has launched an Alliance for Africa's Industrialization. The Alliance for Africa's Industrialization aims to enhance and update the Second IDDA, to promote and forge alliances with the private sector, to promote foreign direct investment, to mobilize additional resources from the donor community and to support the creation of dynamic linkages between agriculture and industry. The Alliance is predicated on African ownership of the programmes it comprises. The Alliance will not only strengthen the Second IDDA, but also be complementary to system-wide plans of action for

Africa. These include the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF) and the United Nations System-Wide Special Initiative for Africa.

Arab countries

123. Industrial diversification away from petrochemical-related industries continues to be an issue for a number of countries in the Gulf region. Many countries in the Arab region are also making a transition from an industrial policy based on public ownership and non-market resource allocation to one governed by private enterprise and market forces. Such a transition can exacerbate the existing severe problem of unemployment, at least in the short to medium term, and requires assistance in such areas as private sector development, industrial restructuring, various aspects of industrial competitiveness, and industrial employment creation.

124. Industrial restructuring and the reformulation of industrial policies has been high on the economic agenda of countries undertaking structural adjustment programmes, which in a number of cases followed increased foreign indebtedness in the wake of declining oil prices. An important group of North African countries is currently engaged in negotiations with the European Union on a Euro-Mediterranean Free Trade Area, which, with the phased reduction in tariff levels now under way in some countries, will have major implications for industrial development and trade in manufactures. Another important issue in the Arab region is the relatively low level of foreign direct investment. Investment promotion will take on added importance in the context of trade policy reform and eventual changes in the terms of access to the European market.

125. The Special Programme for Industrial Development in the Arab Countries will focus on the restructuring of industry, the strengthening of industrial competitiveness and on privatization. Policy and advisory services will continue to be provided to Governments, private and public enterprises and to institutions such as chambers of industry, associations of manufacturers and regional organizations involved in industrial development. Special attention will be given to the region's LDCs.

126. As concerns regional organizations, the Arab Industrial Development and Mining Organization (AIDMO) will continue to play a key role as a counterpart, as will other organizations such as ESCWA, the Organization of the Islamic Conference, the Islamic Educational Scientific and Cultural Organization and the Gulf Co-operation Council.

127. Based on the programme strategy for services to the Palestinian people, a number of projects will be developed and implemented during the medium-term programme period in the West Bank and the Gaza Strip aimed at supporting industrial development. These projects fall within the framework of the unified United Nations Strategy Paper on Private Sector Development (1996-1997) coordinated by the United Nations Special Coordinator's office in Gaza with the participation of UNIDO and other United Nations agencies. The main emphasis here will be on the creation of a policy and institutional framework capable of supporting industrial development activities.

Asia and the Pacific

128. A significant number of Asian countries, particularly in East and South-East Asia, are characterized by marked economic and industrial dynamism. However, the region also contains various LDCs and countries with economies in transition. These countries face many of the urgent economic and institutional challenges experienced by LDCs and transition economies in other parts of the world. Among other tasks, suitable policies must be formulated and implemented at the macro and micro levels, a broad array of institutions and human resources must be developed, and the specific technical requirements of transition—such as in privatization—must be addressed. Some Asian countries also face transition of a different sort, with an attendant set of specific challenges. This transition involves the shift from being low-labour-cost producers of low value added products, to becoming genuine second-generation newly-industrializing countries.

129. The Special Programme for the Industrial Development of Asia and the Pacific will build on the activities of the preceding period with an increased focus on LDCs—especially island and land-locked LDCs—and on other programmes and projects with region-wide characteristics. As concerns the LDCs, emphasis will be placed on activities that link industry with agriculture, thus helping to address such critical issues as rural employment generation and poverty alleviation.

130. Cooperation with ESCAP will be continued in areas such as support to the Asian Pacific Centre for Transfer of Technology (APCTT), and the Fertilizer Advisory, Development and Information Network for Asia and the Pacific (FADINAP). There will be an intensification of activities with other agencies aimed at the formulation of integrated programmes, as well as with development financing institutions. There will also be a greater emphasis on raising funds from non-traditional sources. Intercountry cooperation in agro-based industries and environmental issues, such as cleaner production technologies and effluent treatment in leather tanning, as well as networking systems, subcontracting, pesticides formulation, and automotive

emissions control, will be further pursued based on the lessons learned from already operational programmes.

131. The increasing momentum of subregional co-operation in the Association of South-East Asian Nations, the South Asian Association for Regional Cooperation, the South Pacific Forum and the Economic Cooperation Organization will be important for enhancing regional integration and providing opportunities for the gradual integration of least developed countries into those cooperation arrangements. UNIDO will continue to support this process.

132. As requested by the General Conference in resolution GC.6/Res.13, the thrust of the activities outlined above will be in line with the recommendations of the New Delhi Declaration on Accelerated Industrial Development and Competitiveness in the Asia and Pacific Region adopted by the Regional Meeting of Ministers of Industry of Asia and the Pacific in October 1995. Particular attention will be given to poverty elimination, technological upgrading, environmental protection and regional cooperation.

Europe and NIS

133. Manufacturers in Europe and NIS operate in a market and policy context that has changed radically in recent years. These changes include: the loss of markets in former CMEA countries and a rapid opening of domestic markets to foreign competition; a related and pressing need to penetrate Western markets; a widespread shift from public to private ownership of firms; and the removal of public subsidies. Issues of corporate governance and managerial motivation are to the fore in firms that remain in public ownership. Recent growth in national incomes has been uneven and sometimes fragile, a situation inconducive to industrial investment. Despite significant aggregate growth in exports of manufactures to OECD countries, the task faced by many newly-privatized firms of penetrating competitive global markets remains great, particularly as regards the achievement of levels of product quality demanded on such markets. Marketing, finance, product development and other factors also represent significant difficulties, and technological obsolescence is common.

134. In the medium-term programme period, activities in the individual countries of the region will be guided by a programme of work agreed between UNIDO and the country in the framework of a joint committee or other modality of consultation. The elaboration of programmes under UNIDO's thematic priorities will constitute the core of UNIDO's programme of work with, as a general rule, a focus on two to four programmes per country.

135. UNIDO's approach in the economies in transition is that the industrial sector and individual enterprises must be restructured so as to meet the requirements of international competitiveness. Industrial policies and strategies need to be designed which are appropriate and broadly accepted. This, in turn, requires that the emerging private sector take part in debate on future development. In this context, UNIDO will undertake several industrial strategy and policy projects, as well as industrial economics seminars, to support policy-making. Work will continue at the enterprise level in privatization, quality management and restructuring.

136. As regards environmental concerns, emphasis will continue to be placed on a range of services related to cleaner production. A further field of cooperation will be the reduction of ozone-depleting substances and greenhouse gas emissions.

137. While substantial funds are available from established or newly-created institutions to support the restructuring process in Eastern Europe, limited funds are available for technical cooperation to support the capacity of recipient countries to absorb investment capital. To address this strategic missing link, the involvement is required both of UNIDO and of several international agencies within and outside the United Nations system.

138. A network will be established for subcontracting and partnership exchanges in Central/Eastern Europe. This network, in turn, will be linked to the existing UNIDO-sponsored subcontracting networks and partnerships in other countries already created to help improve access to sources of information on technology and markets. Global integration of the economies in transition will also be fostered by activities in the area of industrial information, investment and technology promotion. Promoting enterprise-level technology partnerships is considered essential. UNIDO will also continue to arrange investment forums and render assistance in capacity-building related to industrial and business information.

139. As regards funds mobilization, emphasis will be placed on expanding trilateral cooperation between UNIDO, recipient countries and, particularly, two new funding sources: the Global Environment Fund and the PHARE and TACIS programmes of the European Union. This will be combined with efforts to mobilize non-traditional forms of funding from traditional donors.

Latin America and the Caribbean

140. The processes of structural adjustment and economic liberalization are far advanced in Latin America and the Caribbean, and a number of countries

have registered positive growth in recent years. However, important developmental problems remain. The achievement of international levels of industrial competitiveness—essential in the context of widespread trade policy reforms—has yet to be realized in significant areas of the industries of many countries. Unemployment is particularly acute in urban areas and is closely associated, in some countries, with a shift in the focus of poverty from the countryside to the cities. Low rates of growth of manufacturing, and the poor performance of small- and medium-scale firms in many countries, have hindered the absorption of excess labour. Significant disparities also exist in levels of industrial development within the region and, in some cases, within different regions of the same country.

141. In accordance with resolution GC.6/Res.14, the UNIDO programme for the industrial development of the countries of Latin America and the Caribbean for the period 1998-2001 will be based on the recommendations of the Regional Meeting of Ministers of Industry of Latin America and the Caribbean, held at Montevideo, Uruguay in September 1995. UNIDO assistance to the region will primarily cover activities relating to: the process of economic deregulation; the formulation of industrial policies and strategies; activities to support small- and medium-scale industrial enterprises; activities to facilitate productivity growth and quality assurance; industrial information, investment promotion and the transfer of technology, and the expansion of activities relating to industry and the environment.

142. Cooperation will also be pursued with development finance institutions such as the Inter-American Development Bank and the World Bank. Efforts will be made to increase funding from non-traditional sources, including the private sector, given that traditional sources of funding for technical cooperation programmes are extremely limited when compared to real needs.

E. Supporting activities

1. Financial resource mobilization

143. As regular budget funding of technical cooperation is very limited (the Constitution of UNIDO does not permit more than 6 per cent of the regular budget to be used for such activities) the Organization has to mobilize extrabudgetary funds for almost all its technical co-operation programmes and projects.

144. Until the early 1990s most UNIDO projects, like those of the other specialized agencies, were funded by UNDP. As this source of funding has sharply decreased to some 20 per cent of total UNIDO funding, other sources of funds have had to be developed. To date this has not been sufficient to offset the dramatic decline in UNDP funding. In the period 1998-2001 current efforts to develop additional sources of financing will be continued.

145. The focusing of the Organization's work on a smaller number of priority areas, and on larger programmes within these areas, will allow the involvement of potential donors earlier in the programme and project development process. This is expected to facilitate eventual funding by these donors.

146. The concentration on a smaller number of priority areas will also allow UNIDO to develop specific initiatives for those potential funding organizations with responsibility for the subjects concerned. For example, work on industry and the environment, and the substantive expertise built up in this area, strengthens the Organization in its efforts to mobilize funds from the Multilateral Fund for the Implementation of the Montreal Protocol, GEF as well as ministries in donor countries concerned with environmental matters. Similarly, the focus on agro-processing strengthens relations with CFC, which has already approved funds for projects to be implemented by UNIDO.

147. Funds mobilization will increasingly need to be undertaken as a joint effort between UNIDO and the recipient Government for programmes and projects developed together. The Organization will, therefore, increase its funds mobilization activities in the beneficiary countries where essential decision-making authority frequently lies. This is valid not only for bilateral donor funds but also for funds from development finance institutions, "self-financed" activities and UNDP financing.

148. An important element of the strategy will continue to be enhancing the promotional and communication activities of UNIDO in order to make the Organization, and its specific areas of global expertise and success, better known in the Member States. Strengthened links with industrial enterprises, industrial associations and industry-related institutions may contribute to the mobilization of specific contributions.

2. UNIDO quality system

149. UNIDO's quality-related objective is that its services satisfy the assessed needs of its clients and have the desired impact on industrial development. For this purpose, UNIDO seeks the continuous improvement of its services. Relevance, efficiency, effectiveness and sustainability are the criteria on which the quality of services is judged. As a learning organization, UNIDO will systematically assess the manner in which these services are produced and delivered to clients, and identify areas for their improvement.

150. The goal for the medium-term programme period is that the quality system will have taken root in the Organization as its normal way of conducting business and that the quality of UNIDO services will be reflected in increasing levels of client satisfaction and of sustained impact on the industrial sector of developing countries.

151. The UNIDO quality system will have three main features:

(a) **The management of UNIDO services:** The Quality Assurance Unit will monitor the application of the principles of quality management of development cooperation (GC.6/Res.10). The main principle is that the ownership of the development process lies with the recipient country and that cooperation takes place on the basis of self-help. The application of this principle will be verified systematically by the Programme and Project Review Committee (PPRC), while its application by the staff responsible for the quality of UNIDO services (DGB(P).8) will be supported by quality assurance officers. Thus, by the end of the medium-term programme period, UNIDO services will, as a rule, be designed to support the formulation and/or the implementation of industrial development programmes of developing countries.

152. For this purpose, objectives-oriented project planning (OOPP) will be increasingly used as a tool for the quality management of development cooperation, quality being the totality of features of a service that bear on its ability to satisfy the assessed needs of a client (as defined in ISO 9000). As a participatory and iterative process involving all parties in the service cycle, OOPP allows for a high level of communication and consensus-building with regard to the purpose—and hence the relevance—of UNIDO services and the responsibilities of the parties involved in the technical cooperation programme.

(b) **Support to the management of UNIDO services:** The quality of UNIDO services also depends on the support from within the Organization to the staff responsible for their development and delivery. By 1998, a set of enabling factors will have been clearly identified by concerned staff with the support of Quality Assurance. The enabling factors will cover the different characteristicsof: leadership by all staff with supervisory functions, staff management, resource management, and other processes critical to the development and delivery of UNIDO services. These enabling factors will also contribute to the Organization's financial standing and the level of staff satisfaction.

(c) **The self-assessment of organizational performance:** Quality Assurance will support the management of the quality system through the self-assessment of UNIDO performance focusing on its external results and its enabling factors.

153. The assessment criteria—which are internationally accepted and transparent to all parties concerned—are derived from the European model for organizational excellence, based on the work of the European Foundation for Quality Management.

154. During the period 1997-1998, the self-assessment exercise will be tested through the use of a combined approach of questionnaires and workshops applied to the Organization as a whole. Self-assessment will be used to identify areas for improvement and actions required for their solution, including the allocation of responsibilities for this purpose. The use of the workshop approach will help to ensure that staff participate in the identification of problems and solutions and the management of change, while actively contributing to the continuous improvement of UNIDO's performance.

155. By the end of the medium-term programme period the system will have been fully integrated into the Organization's planning process and will be applied in such a way that each organizational unit regularly assesses performance and initiates actions to achieve higher levels of quality.

156. The principles and methods already adopted by UNIDO for the quality management of development cooperation have also been adopted at the international level by the G-7 (Halifax Summit communiqué, 1995, and the Lyon Summit, 1996), and the OECD/DAC in "Shaping the 21st Century: the Contribution of Development Cooperation" (1996). It is expected that through their application, UNIDO will contribute significantly to the dialogue taking place in the United Nations, OECD, EU and other forums on how to improve the effectiveness of development cooperation.

157. Towards this end, UNIDO will continue to organize forums on the quality management of development cooperation for interested professionals from multi- and bilateral organizations, NGOs and officials from developing countries responsible for coordinating development cooperation programmes in the field of industry.

158. In addition, this dialogue maintained by UNIDO is expected to have an impact on: approaches and tools for quality improvement, how stakeholders/clients can participate in improvement initiatives, how and what to measure in terms of performance and quality, and how to effect cultural change and determine strategies in development cooperation agencies. In this context, UNIDO intends to invite other development cooperation agencies to carry out benchmarking exercises in order to

compare and learn from common experiences in the management of development cooperation.

Potential new horizons during 1998-2001

159. UNIDO will be well placed to take a lead role in transferring quality management concepts and methods to developing country institutions in charge of co-ordinating and managing technical cooperation programmes. The purpose would be for these institutions to use the concepts and methods themselves for the development, implementation and monitoring of their own technical cooperation programmes and projects. Such UNIDO services will become increasingly relevant if current trends continue towards a decreased involvement of development cooperation agencies at the project level.

3. Field representation

160. A number of factors combine to call for a strengthening and reorientation of the field representation of UNIDO. Apart from the general decentralization move in the United Nations system, these include: the need to strengthen the programme development efforts of UNIDO within a continuous dialogue with country-level decision makers; the increasing heterogeneity of UNIDO's clientele, implying more negotiation and co-ordination requirements; the need to increase the awareness of both public and private entities of UNIDO capabilities and services; the attempt to reach out to the various regions within a country in response to political and economic decentralization trends; and the need to develop integrated service packages in close consultation with different counterparts. As a result, an enhanced field presence is required to support UNIDO Headquarters in identifying, formulating, delivering and monitoring the services to be provided by the Organization in the most efficient manner. At the same time, the functions of the field offices will be broadened to range from programming activities to direct advisory services and thereby serve the entire Organization rather than being confined to supporting only its technical cooperation activities.

161. However, at a time when the demand for UNIDO services is increasing and a strong field representation is assuming a critical role, the field representation programme is subject to financial uncertainties and narrow budgetary constraints. At the beginning of the medium-term programme period, the sectoral support funding provided previously by UNDP will be discontinued. The funding of a strong UNIDO field presence will thus have to be ascertained from the Organization's own financial resources in both its regular and operational budget, from cost-sharing arrangements with countries hosting field offices, and from donor country contributions primarily in the form of Junior Professional Officers (JPOs) and Associate Experts to be outposted in field offices.

162. The main elements of a proposed new approach towards UNIDO field representation acknowledging the new financial realities have been outlined in document IDB.16/19 for approval by Member States. These elements are:

(a) Reorientation of field offices from a larger number of country offices to a smaller number of 20 solidly staffed and financially sustainable subregional offices;

(b) Networking of these subregional offices with national focal points as the second layer of UNIDO field coverage; these focal point offices—irrespective of individual arrangements—would be fully financed from host country contributions;

(c) Special emphasis on the needs of least developed countries in clustering and locating field offices;

(d) Assignment of JPOs and Associate Experts, as funded by both traditional and new donor countries, to subregional offices and, where required, national focal points;

(e) Reorientation of key functions of UNIDO field offices towards stronger emphasis on programme development, country-level funds mobilization, selected project implementation, and direct provision of advice to Governments and industrial institutions;

(f) Increased redeployment of Headquarters staff to the field, coupled with job rotation, training and career development measures; and

(g) Introduction of enhanced delegation of authority to field offices in conjunction with a new system of performance incentives.

163. Upon approval by Member States, the new field representation system would be further developed and refined and gradually introduced over the next two years. It would become fully operational during the medium-term programme period.

164. In accordance with General Assembly resolution 50/120, UNIDO, through its own field representation system, will provide strong support to the Resident Coordinator system and, under the Resident Co-ordinator's overall guidance, ensure the coordination of activities of United Nations organizations with respect to industrial development. UNIDO will also continue to

locate, wherever feasible and cost-effective, its own field offices within the common premises of the United Nations system.

IV. ACTION REQUIRED OF THE COMMITTEE

165. The Committee may wish to recommend to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls General Conference decision GC.6/Dec.10;

"(b) Takes note of the draft medium-term programme framework, 1998-2001, including the general ceiling for the biennium 1998-1999, as contained in documents IDB.16/23-PBC.12/13 and Add.1;

"(c) Approves the general ceiling for the biennium 1998-1999, on the basis of decision GC.6/Dec.11, paragraph (f), and as contained in document IDB.16/23/Add.1-PBC.12/13/Add.1;

"(d) Recommends to the General Conference the approval of the draft medium-term programme framework, 1998-2001, as contained in document IDB.16/23-PBC.12/13."

Notes

[1] The rationale, sequence and results of this reform process are described in documents GC.6/30 and Add.1 and IDB.15/14.

[2] Based on ISIC revision 2, which implies a minor modification of the list of sectoral priorities presented in document IDB.14/13, annex I.

[3] To assist project identification, UNIDO will finalize the development of a PC-based tool, which includes an inventory of energy-efficient industrial technologies, to enable rapid assessment of energy-saving and greenhouse gas reduction measures in selected industries.

[4] This term denotes the changing of forms of corporate governance and managerial motivation aimed at bringing about market-driven corporate behaviour without selling the enterprises concerned.

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MEDIUM-TERM PROGRAMME FRAMEWORK, 1998-2001 (INCLUDING GENERAL CEILING FOR THE BIENNIUM 1998-1999)

Draft medium-term programme framework, 1998-2001

Addendum

Preview of the first biennium 1998-1999 and preliminary indicative general ceiling

Submitted by the Director-General

Summary

Indicates the general ceiling for the biennium 1998-1999 based on anticipated financial and human resources and on programme activities and is submitted in compliance with General Conference decision GC.2/Dec.23(b) (v) d.

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Introduction

1. The present addendum is submitted pursuant to General Conference decision GC.2/Dec.23, subparagraph (b) (v) d, which states that the draft medium-term plan should indicate a general ceiling for the following biennium based on anticipated financial and human resources and on programme activity.

2. Chapter I of the draft medium-term programme framework, 1998-2001, provides a summary account of the key development challenges facing the United Nations system and shows how UNIDO, through its far-reaching reforms, is equipped and prepared to meet these challenges. The Organization will be an effective and efficient partner for the developing countries and the countries with economies in transition in supporting their endeavours towards economically, socially and environmentally sustainable industrial development.

3. In the first biennium of the medium-term programme period, UNIDO will concentrate on strengthening the linkages between its global forum function (as defined and elaborated in section III.B. of the medium-term programme framework) and closely related technical cooperation programmes. Thus, the analytical, statistical, research and normative work of UNIDO will be geared more than before to supporting the sectoral and thematic priorities of the Organization's capacity- and institution-building services to recipient countries. Within these services, the private sector will further grow in importance as ultimate beneficiary but also as direct counterpart of UNIDO programmes and projects. UNIDO will also focus, in the first biennium, on paving the way for market-oriented economic and technical cooperation among developing countries and will implement specific programmes in each developing region to facilitate the flow of information, expertise and investment and technological resources from industrially more advanced to industrially less advanced developing countries.

4. UNIDO will intensify its efforts to diversify sources of funds for its technical cooperation programmes. This will involve the increasingly important global development funding facilities, above all in the field of environment, but also funding for priority programmes from traditional and new bilateral donors as well as enhanced cooperation with industry itself. The demand for UNIDO services and the mobilization of funds for their implementation are expected to grow significantly in all developing regions.

I. GENERAL CEILING

5. The ceiling for the regular budget for the biennium 1996-1997 representing zero real growth, when compared to the biennium 1994-1995, was approved by the Board in its decision IDB.13/Dec.14, paragraph (i). Following the announcement of the United States to withdraw from UNIDO effective 31 December 1996, revised programme and budgets for 1996-1997, showing negative real growth of 13.5 per cent when compared to the biennium 1994-1995, were submitted by the Director-General (IDB/S.6/2-PBC/AS.2/2).

6. In approving the 1996-1997 revised programme and budgets, the General Conference took note that the basis of the 1998-1999 regular budget appropriation would be $185,707,812 (GC.6/Dec.11, paragraph (f)). This amount would represent negative real growth of 11.7 per cent compared to the 1996-1997 biennium. Therefore, between 1994-1995 and 1998-1999, UNIDO's regular budget declines by 25 per cent.

7. At a time when the Organization has undergone substantial financial and staff reductions, the demand for its services continues to increase. While the recent reform of UNIDO resulted in a sharpened focus of programmes and increased the efficiency of programme development and implementation, insufficient funding continues to restrict UNIDO's ability to deliver the services in demand. Many priority programmes, e.g. strengthening of its field representation, are severely hampered despite repeatedly expressed support by Member States.

8. Notwithstanding the strains placed on substantive programmes through insufficient resource endowment, the Director-General recognizes the financial constraints faced by Member States in their national budgets. Therefore, the Director-General will not propose any adjustment to the negative real growth of 11.7 per cent in the regular budget for 1998-1999 as compared with the approved regular budget for 1996-1997. Any strengthening of substantive programmes in 1998-1999 will have to be facilitated through resource redeployments in line with identified priorities and activities of high demand.

9. The proposed regular budget ceiling for the 1998-1999 biennium is summarized in the following table:

Summary of regular budget ceiling
(In US dollars at 1996-1997 rates)

1996-1997 appropriation		210,246,600
Less:	Mandatory contribution due from the United States of America for 1996	24,538,788
Basis of 1998-1999 appropriation (regular budget ceiling)		185,707,812
Percentage decrease (negative real growth)		11.7

10. To ensure that the 1998-1999 regular budget retains the same real value (purchasing power), the ceiling of $185,707,812 will be recosted in the budget proposals to reflect estimated 1998-1999 rates, taking account of expected inflation, when submitting the proposed programme and budgets, 1998-1999.

11. The 1998-1999 regular budget will also be subject to adjustment in respect of cost reimbursement income and miscellaneous income.

II. PROGRAMME AND BUDGETS, 1998-1999 — METHODOLOGY AND FORMAT

12. The programme and budget proposals for 1998-1999 will reflect changes in both the methodology to permit comparison and in the format and presentation, which will place more emphasis on the programme content and thematic priorities of UNIDO.

Methodology to permit comparison

13. Since its inception as a specialized agency, UNIDO has followed a methodology in presenting the financial estimates for a biennium similar to that applied by the United Nations to identify resource growth in programmes between bienniums. The continued application of this methodology would have called for a revaluation of the resources for the 1996-1997 biennium to the prices of 1997 to establish the revalued base for 1998-1999. Resource growth would then be calculated by comparing the requirements of the 1998-1999 budgets (also stated at 1997 prices) with the revalued base.

14. During the consideration of programme and budget proposals for the 1996-1997 biennium, Member States drew attention to the fact that the methodology used to establish a base for comparison between bienniums was complex and difficult to understand or explain. It was also pointed out that the United Nations had recently introduced changes to its budget methodology. A commitment was made by the UNIDO Secretariat to study the new United Nations methodology and, where applicable, to introduce changes in the Organization's proposals for 1998-1999.

15. The revised methodology introduced by the United Nations is simpler in terms of clarity and presentation than that currently applied by UNIDO. It has a particular advantage of facilitating the comparison of the approved budget (rather than a revalued budget) of the current biennium with the proposed budget for the forthcoming biennium.

16. UNIDO will apply the United Nations methodology and present the resource requirements for 1998-1999 at the same rates as for the 1996-1997 biennium. Therefore, any resource growth will be identified by comparing the estimates for the two bienniums. Under the revised methodology, the "revaluation" process of the old methodology will be incorporated in the recosting process for inflation purposes, which will be applied after the comparison of bienniums.

17. The term "recosting" denotes the process of applying inflation factors to the estimated requirements presented at the rates prevailing during the two years of the current biennium (1996-1997 rates). This method is known as "recosting after comparison".

Format and presentation

18. The programmatic introduction to the programme and budgets for 1996-1997 emphasized the intention of the Organization to focus its activities mainly on seven thematic priorities. This new approach to presenting the programmatic thrust of UNIDO's programme of work also represented a first step towards improving the budget format and presentation which was approved by the Industrial Development Board in 1990 (IDB.7/Dec.11).

19. Having reviewed the implementation of the programme and budgets, 1996-1997, presented in documents IDB/S.6/2 and IDB.15/5, the Board in its decision IDB.15/Dec.3 (a):

> "Took note of the intention of the Director-General to review the format of the programme and budget documents to increase their transparency and enhance the understanding of their programmatic implications, and requested the Director-General to bear in mind the need for:
>
> (a) Reflecting thematic priorities in the programme and budgets;

(b) Ensuring a coherent presentation of objectives, activities/outputs and resources;

(c) Indicating relevant changes in programmatic contents and the resource levels proposed, enabling comparison over bienniums."

20. In response to this decision, the format of the programme and budgets for 1998-1999 will be adjusted to address the concerns of Member States on issues of transparency and programmatic implications, particularly in terms of thematic priorities. The programme and budget proposals for the 1998-1999 biennium to be submitted to the thirteenth session of the Programme and Budget Committee will contain a detailed elaboration of the programme of work in relation to the thematic priorities and will provide quantitative information on the financial resource allocations made for each thematic priority. The proposal will take account of the deliberations of the Programme and Budget Committee and Industrial Development Board on the medium-term programme framework at their current sessions.

III. REVOLVING FUND FOR SALES PUBLICATIONS

21. The increasing importance of publications in demonstrating the role of UNIDO as a global forum for supporting and promoting industrial development calls for improved financial mechanisms to support UNIDO publication activities. Proposals will be presented to the thirteenth session of the Programme and Budget Committee in 1997 as part of the budget submission to establish a revolving fund for sales publications, which would take effect from the beginning of the 1998-1999 biennium. This self-financing fund, which would be established using income earned from the sale of publications, would support the longer range planning of publication activities, including promotion and marketing, and reprinting of publications.